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July 1, 1934.

1

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Babb - Allis Chalmers. Business better - 40% better. Customers different. Big contracts. Some form of public works. Because of regular customers failure to buy, cannot finance. Public will not buy securities. Babb has no bank loans. \$14,000,000 debenture due in 1937.- 5%. Collections are fair. Fear of inflation.

Hutcheson - Chrysler. On May 31st, retail delivery was up 60% - Production up 80%. Some softening of orders. Cars in use over 5 years old. Labor more tractable as business goes off. Feeling of apprehension of great spending and unbalanced budget or stabilized currency.

McKinley - Marshall Field. Last 6-7 weeks business down to last year. Optimistic over fall but still losing money. Hope to make 1-2 million profit. Roosevelt man. Relief business too generous; having effect on moral fibre. Not worried as to increasing debt. Too extreme enforcement of code idea - should not include anything beyond wages and hours. Very little falling off because of drought.

Avery - Montgomery Ward. Gypsum field due to anticipation on prices, increase in tonnage up to last month. Effect of drought much less than expected. Business 20% ahead. Last 3 or 4 weeks bad - last few days leveled off. Rather optimistic - have cancelled considerable commitments.

Nash. Criticize men in Washington who do not understand problems. Particularly, CWA lavish spending. Not afraid of President. Inflation. Making normal commitments. Very good fall. Auto business last 30 days good.

Fred Sargent - C. & N.W. Pretty fair corn crop. Grain is only 40% of revenue. Hopkins doing good job. Fear of something going to happen. Not afraid of R. R. pension.

Will cost about \$600,000 or about same as normal. Not worried about Frazier-Lemke. Thinks it will stiffen price of farmland. Attorneys of PWA should be less technical - was going to borrow \$3,000,000. Would cost \$300,000 more than to borrow private capital. Fear that government cannot meet its own obligation. Should be made clear that large part of money will be paid back.

McKinstry - International Harvester.

108,000 tractors to 9,000 - turned corner in May 1933. Slideoff this April. Crop failure affects them badly. Losing money. Increase costs. Worried about agitation of labor. Collections - what is dollar going to be worth? Collections better, particularly in south. Been able to increase cost to farmer enough to offset cost. Very pessimistic.

Stuart - Quaker Oats.

Normal. April-May let up. Last 3-4 weeks pick up. Worried about price control. Should draft business men on Government Commissions.

Brown - 1st National.

Does not see in near future any demand for money. Would like to see Washington leave everybody alone for awhile. Long term Government securities not going into hands of investors. Fall moderately better. They are now regulated from 4 to 5 sources-too many!

Thorp - Illinois Steel Company.

Think mill business will be off for a month - In the fall, gradually recovering. Labor greatest menace. Last month made first profit in 36 months. To some extent moderately anticipated their future needs. Not for F.D.R.

Thomas Wilson.

Says Davis was satisfied - Tugwell in recent statements has been unfair and untruthful. No new capital needed. Bond issue due 1941 - 6%. Lard is working off. Last month killed only 20% of hogs. 28% less hogs this spring. 38% less this fall now expected. Headed towards a real shortage of hogs next spring. Beef situation will get better. Industry in good financial shape. He wants to help.

August 1st.

3

Returned to the office in Washington on July 30th and much to my surprise found in the four weeks that I was absent that the Treasury had only bought 5,100,000 oz. of silver. Talked with Coolidge who said it had been very difficult to buy silver. He had a plan in which he proposed to buy each year only the world output in order not to draw on China and India for silver. He tried his best to persuade me from starting an aggressive buying campaign and urged me to wait until the President returned when we could discuss the matter with him. Coolidge said, let me take the blame for not buying silver. I told him that this was an obligation which the President had placed on me and I would feel that the President had every right to criticize me on his return if he found that we had bought so little silver. I told Coolidge that I would personally take charge of the buying and expected to run it up to 49 $\frac{1}{2}$ ¢ and then nationalize. I told him after we had done that we could then sit down and discuss the next step. Coolidge argued that if we nationalized here that the International speculators would then buy silver in London and would be very apt to run it up to 65¢. I told him that I doubted this very much, especially if we would rest on our oars after we reached the 50¢ price. Monday night I told Crane to try and buy in London Tuesday morning at the fixing 2 $\frac{1}{2}$ million oz. at the equivalent price of 46.05. As a result of this order we got 650,000 oz. at 46.05.

I sent the following cable to the President:

"Returned Washington today feeling grand. Lots of work to do. Will not meet you unless you wish it. During my absence Treasury had bought only five million one hundred thousand ounces of silver stop. am planning to buy aggressively until price reaches forty nine and one half cents. Looking forward to seeing you with great pleasure on your return. Best regards.

I received the following answer on Tuesday:

"It is not necessary that you meet me. Glad you had "appy 'Olliday". Also very glad you are going to push the purchase of silver".

Tuesday, July 31st, we purchased in N.Y. 400,000 oz of silver at 46.45. Between 3 and 4 P.M. Standard Time I gave Crane the following order to purchase 1,850,000 oz. of silver at 20 7/16. We gave the London price in order to avoid the difference in foreign exchange. We are using the Chase Bank to execute these orders as I understand that their London office is about the best amongst the American Bankers.

Marvin McIntyre lunched with me and he gave me a lot of gossip. He said that while the San Francisco strike was on that for 48 hours it was almost like warfare. He said "Perky" meaning Miss Perkins was grand. During this whole period she was down in Miami as her sister was very ill, but she was constantly on the telephone. He said Perky used me the way the President did and would give me suggestions and I would talk to the people the way she could not on account of her being a woman. He said General Johnson called him from Portland and argued with him about going to San Francisco. Mc said, I told the General why ask my advice, you never take it anyway. After much discussion in trying to get the General to limit himself to two speeches and then return to Washington they finally agreed that the General could go to San Francisco as a private citizen. If anything went wrong, he was there without the White House sanction. With that understanding the General went to San Francisco.

Mc tells me that Jimmy Moffett has been separated from his wife for a dozen years and I gather lives with a Mrs. Moran, a very wealthy woman. Mc says we have to have some people who are inside the lines of the enemy (meaning critics of the Administration). He says that Mrs. Moran is very wealthy and is very heavily in stocks at the present time and on account of her fondness for Moffett is ready to doublecross any of her associates. I gather that Mrs. Moran is operating in stocks with the real big operators in N.Y., and the intimation is that she is doing so now. Mc wanted me to play golf with Moffett Wednesday afternoon also with Kennedy. I told him that I really didn't have time for golf during the week. Comment: With this information Jimmy Moffett certainly bears watching as Mr. Sykes told me when I was out west that Moffett was fired by the S.O. Co. of N.J. and is known as a great boozier. Mc was rather critical of Louis Howe and said someday Louis is going to go too far and the boss is going to give him an awful spanking. The trouble with Louis today is that he is not in touch with things but he keeps on giving orders on important matters when he really is not posted. I asked Mc. to telegraph the Pres. about reappointing Adolph Miller from the Richmond district rather than Calif. in order to make room for Marriner Eccles. Mc said he would do it. He said he did not know Eccles well but the little he did know of him was good. Mc was extremely friendly - in fact, more so than I have ever seen him.

Had breakfast with Capt. Sayles who made a much better impression on me than he had before. He is handling a lot of the under cover work himself and I feel quite encouraged.

At 5 o'clock I went over to the Procurement Division and talked to the architects for 45 minutes. When I was

through, I felt I had really done a good job. I explained to them that I was going to give them the opportunity to turn out economical, good-looking utilitarian buildings rapidly; that I believed in re-firing rather than firing; that I appreciated the policy heretofore had been to build a mausoleum type of building but that that would have to stop; that I had taken Congressman McDuffy off the shoulders of Admiral Peoples as I was always glad to relieve them of the political pressure and that I had explained to the Congressman that we could save \$30,000. I told the group that possibly I was twelve months ahead of my time but just as sure as I was sitting there, within the next 12 or 18 months economy would again be the policy cry in Washington and that I wanted this Division of the Treasury to show the way. The interesting reaction from men like Reynolds was, of course, Mr. Secretary, we want to do this but it has been the outside architects who have been insisting on the extra luxurious ornamentation. This was particularly amusing to me because Reynolds was amongst those who said it was a tremendous mistake to discontinue using outside architects. Simons, the head architect, also mentioned that the former Assistant Secretary under Mills used to urge them to build more extravagant buildings. I left there feeling that I got over to the group the spirit with which I wish them to carry on their work and I feel that the personal contact was worth ten times as much as any possible written orders that I could have given them. Peoples, when I left, was very much pleased and I feel that I have won him over entirely to my attitude in this matter.

August 2nd.

Telephoned Coolidge Wednesday morning ~~and~~ after reading a little squib in the N.Y. Tribune in the financial news that the dealers who have bought the new Farm Credit 3% \$100,000,000 issue were sore because the price was off. I told Coolidge to buy \$5,000,000 worth of Postal Savings. He first protested mildly saying that he had counted on using Postal Savings money to supply the Farm Credit Administration with the \$25,000,000 that they needed each month. Then Coolidge said that it had been in his mind to speak to me about supporting the market in the F.C. 3%. Ten minutes past 11 o'clock D.L.S. I called up Burgess of the Federal Reserve of N.Y. and asked him if he had bought any F.C. 3%. He said, no, and rather crossly I said, why haven't you? He said how do you know that I have not and I said because I am getting quotations every 15 minutes and the price is dropping. I wish you would go ahead and buy some. He called me back in five minutes and said, I bought \$1,000,000 worth and with a smile in his voice he said, my but you are certainly in good form. I checked with

him again several times during the day and after the market closed he told me that he bought \$3,250,000. worth, and he said you will be interested in knowing that he, Burgess, thought he would anticipate his needs and buy some notes for the Federal Reserve to replace bills coming due shortly. He said just as soon as I tried to buy them they went out of reach. He said the tone of the whole government market is much better and he seemed to feel much more cheerful. This again demonstrated that while the Federal Reserve and the New York financial crowd love to criticize the Treasury for supposedly supporting the government security market, if we do not do it occasionally, papers like the New York Tribune and others are only too ready to jump on our neck. Coolidge is absolutely useless when it comes to being aggressive and taking chances. This has been demonstrated in silver. Yesterday we got around $1\frac{1}{2}$ million ounces of silver, the whole financial market turned the corner and I felt so happy about it that I sent the President the following cable:

"Aggressive buying produced good results in weak government bond market period

Sept. corn 75 $\frac{1}{4}$ up 1 $\frac{7}{8}$
 Sept. wheat \$1.05 up 3 $\frac{1}{2}$
 Oct. cotton 13.1

Whole market turned today stocks up 2 $\frac{1}{2}$ points silver up about once cent. period amount of silver purchased today 1,575,000 ounces Tuesday 1,050,000 ounces

Henry Morgenthau, Jr.

Wednesday, August 1st, I had a group in for luncheon. The purpose of this meeting was to try to get the four federal agencies who contact banks to have a uniform policy as to examinations and request for information and eventually a national bank policy. A number of those present seemed quite frightened, particularly, Awalt, who seemed to think that I had in mind a possibility of doing away with the Comptroller's office. Crowley tried to use this opportunity to clean up his preferred stock program and I had to sit on him. Like most of these meetings there was a general discussion leading nowhere and I finally had to assert myself and lay down the program. I suggested that each of the four agencies appoint members of their staff who should work with Viner whom I designated as chairman, and bring in a preliminary report by Tuesday. We agreed that we would then go out and make a quick survey in the Federal Reserve District of Richmond.

I argued with myself whether I should give this program any publicity and I decided that with so many prima donnas involved I would get much further if for the time being I claimed no credit for this idea.

Those present at the above luncheon were: Mr. Crowley, Mr. Awalt, Gov. Tally for Jesse Jones, Chester Morrill and Leo Paulger of Federal Reserve, McReynolds, Eccles, Oliphant, Coolidge, Viner, Gaston.

Had Geo. Harrison and Coolidge for supper. Harrison told me that he had the following information directly from Norman - that the reason the Germans signed the agreement with the British to give them preferential treatment on the Dawes Young loan was that Under-Secretary Leith Ross sent for the Germans and said, "We give you until 12 o'clock tomorrow to sign it. If you do not sign it at 12:01, we will seize all of the German funds in Great Britain." The Germans tried in every way not to sign it, came back with a few minor suggestions and Leith Ross told them, you sign on the dotted line and I will not permit you to change a single word. Harrison said that Norman thought that this was outrageous procedure. Schacht told Harrison that they had signed this agreement against his protest and that it was impossible for the German Government to live up to it. Harrison said that conditions in Germany were terrible and that they would only permit imports for an amount equal to their exports as they gold was down to about seventy million Reich Marks. He said, for example, they could not import any food for their cattle and that therefore farmers were butchering their cattle and with so much surplus meat they practically could not give it away. Harrison was very blue about both the German and the Italian situation. He said in Italy they have forced the reduction in the cost of living by the most drastic and cruel methods, hoping in this way to be able to re-establish themselves, but Italy now finds that after going through this program she

cannot increase her exports because on account of the many quotas set up by all countries. I gather that the situation in Italy was also critical and that strange as it may seem one of the countries that is doing the best is Austria. Harrison said that America looked so good to him on his return this time. He also said that much to his surprise the central bankers whom he met took very little interest in our silver program. Harrison tried to pump me as to who was to succeed Black, but of course he got nowhere. He gave me some news, namely, that the President just before he left told Black that he did not approve of the idea that Black stay on as Governor and taking 2/3 of his salary from the Federal Reserve at Atlanta and full salary here in Washington. The President said that he thought this was a subterfuge and would be subject to criticism. Harrison said he had heard both Tom Smith and Eccles mentioned but I did not blink an eye lash at the mention of either name. I think Harrison will die if Eccles is appointed.

Dictated August 7th.

Friday, August 3rd, after meeting Henry on his return from Europe, took Gifford, President of the American Tel. & Tel. on the Coast Guard Cutter Champlain and sailed up the Hudson as far as Peekskill. I found Gifford very easy to talk to and extremely frank. Gifford said, frankly, he was very much worried as rumors had it out of Washington that the new Communications Commission was out to get the Tel. & Tel. He said, I cannot understand this attitude because he said nobody has ever made big money out of Tel. & Tel. The stockholdings are well distributed, no one person holding a large amount. I told him my idea about wanting to find an important company like his who would go ahead with a program of expansion at this time. He said his company was not a good one to pick because their plant equipment would more than take care of their present business. He said up to the first of June the net amount of telephones in use was on the increase but that June and July they had lost telephones in excess of their estimates and that he was disappointed. He spoke at great length of how he and other business men were worried about the attitude in Washington - that the 50% tax on salaries and the fact that you would not deduct your losses against your income were all factors which took away the initiative for a man to go out and take changes in his business. I pointed out to Gifford what my idea was on inflation, namely, the printing of paper money to meet the budget deficit. He said that this was also his idea. I then pointed out that just as long as business holds back, the Government would have to continue to make large expenditures to meet the unemployment situation and would have to continue to tax people a great deal more and more and eventually would be driven into the printing of paper money to meet our deficit. He said, I am awfully glad that you are seeing some of us individually, rather than try to do what Hoover did and get a whole group together and ask each of them how much they spend and get a grand total and announce it. He said that this plan

had not worked at all. He said, I am a member of the Finance Committee of the U.S. Steel and I know that they have a big building program on which they could go ahead if only they felt that this was the right time to do so. He said, I will speak to Myron Taylor President of the U.S. Steel Corp. and call you up on the telephone. Gifford said, you are the first person connected with the Administration who has asked my advice and sat down and talked things over with me. He said after this conversation I would like to meet the President. What do you think of it. I said, excellent. By all means talk to the President. Gifford then went ahead and said some nice things about the President, mentioned the fact that he, Gifford, was Class Marshal at Harvard and had graduated one year after the President. (Monday, Gifford telephoned me and said that he had talked to Myron Taylor but that he had not gotten very far with him but Taylor would be glad to see me and suggested that I get in touch with him - which I will do). While nothing concrete may come out of this talk, I feel that if I can see some of the leading business men and have heart to heart talks with them, that possibly I could dispell some of their fears of Washington. The conversation was worthwhile from my standpoint because it enabled me for the first time to clarify my outlook.

Dictated August 7th.

Thursday, August 2nd, Helvering asked that I see Williams because when he recommended him to me he did not know who was back of him. Last night Emil Hurja called him up and asked whether Williams was going to get the job; that half dozen Senators are interested in him. He, Helvering, said he did not know who was behind him when he recommended him - or was he bluffing? Can you imagine Emil Hurja picking a head of the Permissive Section of Alcohol Tax for me?

Dictated August 7th.

Monday, August 6th, Had in Mellott and Sayles and approved their re-districting of their Alcohol Tax Units. I accepted their recommendations just as they were made. I pushed them very hard to clean up and finish this job so that I could announce it at my press conference at 4 o'clock - my feeling being that while the President was absent and the newspaper men are so hungry for news, I wanted a story to give out each time to keep the newspaper men from asking me embarrassing questions. They almost got my goat on pressing me on the tax on liquor. In my enthusiasm I went a little bit too far and said that if I can't lick the bootlegger I would be willing to go home. I am afraid this statement will come back to roost some time - but then I really meant it. It was very interesting that when the boys were pounding me the hardest, John Roettiger came to my rescue and said quite firmly - after all the Secretary is just announcing his reorganizations, why not give him a chance?

Monday night, August 6th, I went over with Viner, Oliphant

and Eccles the banking program which Viner has been working on. They made some progress but not as much as I had hoped for.

In the afternoon Jim Moffett came to see me and did not make a good impression at all. Very fixed in his ideas and talks too much.

I made this statement in the evening. Eccles said, yes I found him that way but I can talk more than he can so I can get my viewpoint over, whereupon all of us howled with laughter and told Eccles - yes, you could, but nobody else could.

I kept after Bell and Broughton and finally got them to see that the new \$1. and \$5. 1934 silver certificates would be given out from the cashier of the Treasury in our own building.

Dictated - August 8th.

Yesterday had conference with Oliphant, Opper, Mellott Sayles, Graves and McReynolds on the question of enforcement in the dry states. It seems that there is an act of 1926 which says that anybody selling tax paid liquor in a dry state must pay the Federal Government \$1,000. If they do, they have complied with the Federal Law and it is up to the State to enforce its own laws. I suggested that we try out a campaign in the State of Texas where there is a real desire for the Federal Government to do something. A grand jury learned that we had no money with which to buy liquor, raised \$10. amongst its own members. With this money our men went out and bought liquor and collected \$6,000 in fines. At the conference yesterday I learned that we have money with which to buy liquor for evidence. I told Mellott and Sayles that it was o.k. with me to buy liquor provided that the men did not drink it on the premises and did not take any women with them as companions and use them to assist in the purchase of liquor. I instructed Oliphant to send a very able attorney to Texas to watch this experiment. Mellott wanted to go in and spring this campaign on the State of Texas. I explained to them that this was contrary to my policy, that I was much more interested in having people obey the law than I was in making arrests and therefore Oliphant is preparing for me for my Thursday press conference a statement which will put the dry states on warning.

Yesterday at lunch I had the following group:

Crowley, Awalt, Tally, Paulger and Morrill of the Fed. Res, McReynolds, Eccles, Oliphant, Coolidge, Viner, Folger of the Comptroller's office, Tim Fox, Milford and John G. Nichols of F.D.I.C. and Governor Black. Sheehan of R.F.C. was invited but he was out of town. Gaston was on vacation.

We seemed to be making real progress. I asked Crowley to bring up his preferred stock issue and I am going to try to get Jesse Jones to make a drive and try and clean up this preferred stock campaign by Oct. 1st. There is absolutely no excuse the way R.F.C. let this thing drag since Jan. 1st.

Frank Altschul came in while I had my supper and read a long statement to me which he had prepared for Ray Moley. It was a very florid, wordy statement supposedly analyzing the fear of the country but gave no suggestions for a remedy. When Frank was thru I said, that is a very pretty statement, but does not suggest anything. I then goaded him on a little bit and got him to talking about what he really had in his mind, namely, the income tax, the securities act, etc. I then said to him, give me the name of the company which wants to be financed and I personally will assist them in getting by the various Washington hurdles. Frank quite excitedly said, that is just what we do not want. We do not want Washington to finance business. I said, that is not what I suggested. I simply said, I will try to get them by the hurdles. Mr. Redman, counsel for the Stock Exchange, called for Frank and he asked him in obviously showing off his friendship for me. He repeated our conversation of what I was willing to do and Redman said, take the Atlantic Coastline for an example. I said, well I doubt whether that is a fair example and I pressed him for examples of other companies, whereupon he did just what Mr. Houston did of the Baltimore Locomotive did, he said, well the psychological attitude of companies is not right for the moment to borrow money. I said well that is the same story I get from anybody when you press them for an example of a company that has a good balance sheet making a little money who wants to borrow some money for expansion purposes - everybody backs away and talks about the psychological attitude.

At 8 P.M. Peoples, Viner, Oliphant and Richberg came to see me. We talked generalities for an hour. When everybody left, Richberg asked whether he could stay. He then unburdened his soul to me. He said that he had been thru a living hell; that he had been in a difficult position of having two loyalties - one the President and the other General Johnson because he said, he never would have gone with N.R.A. originally if the President had not asked him to. He says the internal situation is just unbelievable - that the General would set up a group and tell them to go to it and suddenly they would wake up in the morning and find that a big hand had descended upon them and just wipe them out. He said he was with the General at Miami where he was drunk most of the time. He said, to show you the kind of situation in Miami, I had to sleep with the General and talk to him like a child and say to him, now I am tired, General, I want to go to sleep, don't you want to lie down? He said I would have to lie down on a bed and try to make the General do the same in order to keep him from getting drunker. He said at 4 o'clock in the morning Miss Robinson knocked at the General's door and fainted dead away and the General had to carry her back into her room and it took a doctor and trained nurses hypodermics for 12 hours to bring her around because she had been drinking too much. He said

we met the President and he insisted that we get off the train and go to White Sulphur and try to sober up the General. He said most of the time Robby is fighting with the General trying to keep him from drinking to excess and making a public show of himself and it is only infrequently that she gets drunk. Richberg says he considers the General a psychological, pathological case and that he told him that he is absolutely destroying himself.

He said the staff of the N.R.A. is way above average; that they know how to run it and how it should be reorganized. The problem is to get rid of General Johnson. He said after hemming and hawing the only way to get rid of General Johnson was to get him a big job out side of the Government. He said that he doubts whether Bernard Baruch would take him back now and Johnson would not want to play second fiddle to Baruch as he considers himself too big a man. He said one morning he decided to go in and talk to Johnson in his office and he locked the door to keep Robbie out. He relates that he never had an experience like it in his life. She kept pounding on the door and shrieking that she must come in as she had a message from the White House. Richberg said that he told the General face to face that there were two things he had to stop - one was his drinking and the other was the interference by Robbie in N.R.A. Administrative matters. He said when he got thru talking to the General he said, here is my resignation, I am thru. The General said, what do you mean and he said, anybody who has made the statements that I have is thru and he said you can ask anybody in N.R.A. whether what I told you is not so about the situation. The next morning he had Abram Harriman and Robbie in and told them what he, Richberg, had said the day before much to Richberg's embarrassment. Johnson turned to Harriman and said, is what Richberg said true and Harriman looked him square in the eye and said, yes it is. Richberg said from that day on Harriman's days were numbered.

I told Richberg the only way I knew of finding Johnson a job was to possibly place him in one of the companys that H.F.C. had a large stock interest. He thought this was a grand idea.

We both agreed that the N.R.A. was the contact point of American businessmen with Washington and that just as long as this internal situation in N.R.A. existed of course American business men could have not confidence in the Government in Washington.

I am not going to leave a stone unturned to get the President to remove Johnson. I do not know how I can spend my time to better advantage.

Yesterday, Aug. 7th, I spoke to Dr. Doran, Supervisor Distillers' Code Authority, and asked him for copies of his advertising campaign that he is running for the next 90 days. He promised to send me copies of the telegrams.

Dictated
August 10th.

Aug. 9

Got to the office at 8:30. Found Oliphant waiting for me. We immediately began to check our plans for the nationalization of silver. At 9 o'clock Coolidge came in and showed me that \$22,000,000 worth of bids on the Home Owners Loan were under 99. He recommended that we reject these and buy them for Postal Savings. I accepted his recommendation. Later in the day he said that he would put in an order and buy in Home Owners bonds at 99½ in order to steady the market. I was delighted that he should originate this suggestion. In the middle of the morning I noticed the Government bond market was going badly and suggested to Coolidge that we buy \$10,000,000 for Federal Deposit Insurance and he said o.k. About half hour later I noticed the market was still continuing to go badly and I called up Burgess and found that he had bought a little over \$2,000,000. I urged him to be more aggressive. He said, do you want me to push them up regardless and I said, no. I said, try to have them close half way up from yesterday's close. He said fine. I called him again with Coolidge in the office and he said he had about used up the \$10,000,000 and should he go ahead, and we both said yes. I asked him to call me just as soon as the market closed but at 3:30 D.L.S. time, not having heard from Burgess I called him and he seemed terribly excited and said that there had almost been a panic on the stock exchange with governments and that the market had been kept open until 3:30; that we bought \$19,000,000 worth. The reason for my being so anxious to support the Government bond market was because first, the unfavorable comment that came over the ticker on the President's speech and second on account of our nationalization of silver. I realize that until the financial district understood what we were doing that the government market might slump considerably and lastly, I wanted to also offset any possible ill effects from the poor way in which the Home Owners Loan offering went. Undoubtedly if we had not been in the market there would have been a small panic in the government bond market. There is no doubt in my mind that the Federal Reserve for the first time did not handle the execution of the orders well. I may be partly to blame for having contacted Burgess directly and urging him to go forward, but on the other hand from reading the papers and from the talk that I had with the Wall Street Journal, I gathered that there was a natural recovery in the market during the last hour and my belief is that we were only partly responsible for the tremendous flurry in the governments. At 5 o'clock I had a long talk with Harrison and I am afraid I was quite excited in my conversation with him. He had been at a board meeting all afternoon and frankly admitted that he knew nothing about what had taken place in the government market. He called me back in about 15 minutes and was very calm and collected and told me not to worry and he said that he felt that Burgess was partly responsible in upsetting me because he talked so wild over the phone. I asked Harrison as a favor whether he would not watch

the government market himself on Friday to see if there were any ill effects from our Thursday's operations.

Aug 9 - Silver - At 9 o'clock I put in a call for Forster of the White House who was with the President at Green Bay Wisconsin. I got him on the phone and told him that we would be sending a message to the President on silver and did he have the copy which the President was to answer. To my pleasant surprise he said he did have it. I told him it would be coming along in a couple of hours and please to watch for it. I also asked him whether the President would care to have me get on the train at Baltimore and ride with him to Washington.

Richard L. Jervis, On Board President's Special Train
 "Give the following message to the President and have his reply therein quoted dispatched to me at once QUOTE My dear Mr. President COLON Pursuant to the arrangements made before you left Washington I advise you as follows and request immediate return of the reply set out below COLON Market price for silver has today risen for first time since middle of last June to forty nine and one half cents a fine troy ounce, accordingly Secretary of State and I are proceeding in accordance your written instructions of last June 28 STOP I confirm my determination of deductions approved by you June 28 STOP Such determination applies equally at this time STOP Henry Morgenthau, Jr., Secretary of the Treasury UNQUOTE Suggested reply QUOTE Replying to your message of today, I reaffirm my instructions of June 28 1934 to you and Secretary of State and my approval of deductions determined by you and approved by me on June 28 STOP I note and approve your delivering to Secretary of State today (Thursday, August 9, 1934) the certification described in my instructions of June 28 and the action of the Secretary of State in proceeding today in accordance such instructions of June 28, thereby making the instruments covered by such instructions my official acts effective from today STOP Franklin D. Roosevelt UNQUOTE

Henry Morgenthau, Jr.

The above suggested message was immediately sent by the President to me.

When had Lochhead come into my office and he practically stayed there for the next couple of hours. The silver market opened up very sluggishly and I believe the first sale was around 49.10. I told Lochhead that I wanted silver to hit 49.50. at 11 o'clock Daylight Saving Time. We had considerable difficulty in moving it. At 11 o'clock D.L.S.T. we told New York to post the price of 49.50 which they did, and immediately we bought a little over one million ounces and silver automatically was nationalized. We then sent Harlan over to the State Dept. to get Hull to sign the necessary papers and about 11:15 D.L.S.T. Harlan phoned that Hull had signed and five minutes later he was at the White House and the message

was on the way to the President. I got an answer from the President about one hour later. Immediately after we nationalized we put in orders to sell 1,000,000 oz. of silver at 49.75 for spot August and Sept. We then got a flash from N.Y. that they were offering some silver at a very advanced month at 49.85 and we told them immediately to put in orders to sell silver at the advanced months at 49.85. Then Lochhead got the bright idea that people might buy silver at 49.75 and hold it to sell it to us at 50¢ so we advanced our selling orders to 49.95. Lochhead, Crane and Cameron did a swell job because during this period until the Commodity Exchange made up their mind what they were going to do, we were on pins and needles and we heaved a sigh of relief when around noon the Commodity Exchange ~~suspended~~ operations in silver and posted the final price at 49.96, which plus their commission of 5¢ equalled exactly the price of 50.01.

The morning was terribly exciting but Oliphant and Harlan had everything in fine shape and everything clicked beautifully. It worked out that we were ready to announce nationalization just ten minutes before my 10:30 press conference. Had another press conference at 4 in the afternoon and answered many more questions. The press was very friendly and I particularly enjoyed the afternoon conference. The whole day was one of the most exciting that I have gone thru.

At 2 o'clock Parker Gilbert came in and spent an hour with me. He was most complimentary about the way the Treasury had handled its financing and said some nice things about Coolidge. I explained to him what I was trying to do with silver, namely, that I wanted to bring over enough silver to equal our favorable balance of trade and make it unnecessary to continue to bring over gold. I asked him what he thought of the idea and after a few minutes he said he thought it was all right. As a matter of fact I think rather well of what you are trying to do with silver. I then asked him if he thought I ought to explain my ultimate silver objectives to the financiers in N.Y. and he thought it would be unwise to do so and much to my surprise he said that he thought the fact that the Treasury kept _____ on a weekly basis and made no future commitments was one of the strengths of the Treasury's position. In talking about the present business situation he gave me a brand new angle. He said that the thing which was worrying him and other business men was that companies like General Motors and Chrysler which were doing such an increased business came out with statements showing a disproportionate amount of profits to the increased business, and that a lot of business people were afraid that the mounting of increased costs would gradually eat into their profits and that they would disappear and that was one of their chief sources of worry at present.

I reminded Gilbert of our previous conversation that I wanted a company that wished to borrow and have an expansion program, etc. He said, I have not forgotten and think I have a good example for you. He said that it is a subsidiary of the Consolidated Gas that wants to borrow \$10,000,000 partly for refunding and partly for rehabilitation. He said we have not progressed far enough yet to need any help but I certainly will keep your offer in mind. I asked him if he knew of any other cases and he said that he had heard a couple of months ago that American Cyanamid and Pittsburgh Plate Glass together wanted to get out a floatation for some new program but had been unable to do so. He said that they were not connected with this company. I asked him whether he would mind getting in touch with Bell, President of the American Cyanamid and finding out more about the details.

Dictated August 11th

Friday, August 10th, woke up about 6 A.M. and started to read the cables that came in yesterday from abroad and was very much surprised to find in a cable from Cochoran of the American Embassy in Paris that a six million dollar gold shipment enroute from Bombay and controlled by an American Bank in Paris was going to be permitted to continue on its way to N.Y. The reason being given was that they could only buy fifty thousand dollars worth of dollars - there being apparently a shortage of dollars. This got me sufficiently excited that I put in a call for Cochoran in Paris and had a pretty good connection. Cochoran said that after he had sent that cable dollars became easier to acquire and American interests controlling gold shipments had actually taken gold off boats already loaded for N.Y. and he mentioned a shipment of gold to arrive at Boston today which he believed they would order to return to Europe and not be unloaded here. I told Cochoran that we did not want any gold to come over here under the present foreign exchange rates and that if there was a shortage of gold I was sure that we could find a way of supplying the dollar. He said he doubted if that would be necessary. I asked him to telephone Ray Atherton in London and give him the drift of my conversation. He said he would. I told Cochoran that I was very much pleased with the cables that he was sending me, and he thanked me most heartily for my cable of appreciation which I sent him yesterday.

Went down to the station to meet the President. He gave me an appointment for 3 o'clock. Much to my surprise he saw me at once. I told him about our most recent moves in silver. He said, you know, it is funny, but I absolutely believe in thought transference. He said, I woke up one night on Board the Houston and sort of worried about what you were doing about silver and thought well, it is time for Henry to begin to do something. Next morning I got your telegram saying that you started to buy, giving me the prices, etc. He said I was very much disappointed that Coolidge did not carry out my instructions which I gave him the last Saturday I was in Washington

and I told him to buy at least one and a half million ounces a day. He said, why didn't he carry out my orders. I said because Coolidge said he did not believe in the silver program. The President's eyebrows went up and he seemed quite annoyed. I explained to him my idea that the rest of the world owed the U.S. a certain amount of money each month due to our favorable balance of trade and that the world had been paying us for months in gold. My idea was that if we bought enough silver we could stop bleeding the rest of the world of its gold and possibly even letting gold go out of this country. I could see that this was an entirely new idea to him and that he was interested immensely.

I told him that I thought the worst situation in Washington was General Johnson; that we ought to try to get him a job thru the R.F.C. The President agreed that something must be done about Johnson, but he said, getting him a job is three steps removed and we could not reach it for over a year. I did not tell the President that I absolutely did not agree with him on this but I know that that is the way he likes to do things. Of course George Peek at present is a living example of this method.

Flew to the farm Friday evening.

Saturday morning the papers, very much to my surprise, took the statement which had been read to me over the telephone Friday night on silver and completely twisted it. The Tribune particularly made it appear as though the President had overruled me; that we were going to go ahead on issuing silver certificates up to the limit. When I talked to Coolidge about noon and learned that he did not understand what we were doing, it seemed to me that we had to do something. I also was surprised to learn that governments had taken a terrific drop and that also due to the misunderstanding of our silver policy. I suggested that Harlan, Bell and Upham see the newspapermen and give them an explanation. To make sure that their explanation was satisfactory I called up the managing editor of the New York Times and asked him whether he would tell me what report he received over the wire from this interview. When he read it to me I realized that these men had not explained our silver policy satisfactorily and that something additional must be done. I told the Times editor that the N.Y. Tribune was sending over someone to see Oliphant (Ernest Lindley) and I suggested that they also send someone over which they said they would do. Earlier in the afternoon Upham told me that Lindley had asked some very pertinent questions which he wanted answered and I felt that the only person who could answer them was Oliphant. I therefore called Oliphant on the telephone and asked him whether he would not go over to Washington and see Lindley which he agreed to do. I then called Oliphant again when he got to Washington and told him that they should also see the N.Y. Times man. When Oliphant's interview was over he called me and said that he had seen both Lindley and the N.Y. Times man, that he had gone over the situation with them three times and felt that at last they understood it.

As a result of this work the Sunday Times carried the best story on silver that had been written yet and Lindley carried a fair story.

The result of all this effort was worth while because on Monday the financial district seemed to understand better what we were doing and the Government bond market went up.

August 13th.

Monday - Had a long discussion with Oliphant, Viner and Lochhead in my office as to whether we should try and let the people in N.Y. know that we were anxious to have gold go out of the country. After a long discussion we decided that we would let the Federal Reserve do it. I got in touch with Crane and told him to let the various banks know that it would be pleasing to the Treasury to see a shipment of gold go out. This did not happen because there are several million dollars worth of Indian gold on the way here now and the various banks are busy arranging for the return of this gold to England and until this operation is completed it is only natural that no gold will leave the country. Late Saturday the Bank of Manhattan sold us fifty thousand ounces of silver and I told Lochhead to let the various banks in N.Y. know who are dealing in silver that we were ready to buy. He did this.

Lunched with the President and was with him from 1:20 until 3 o'clock. Talked a lot about silver. Explained to him how I was forcing out the silver certificates thru the Federal Reserve banks and in the case of the \$1. bills was sending out 1934 silver certificates first instead of using up the large supply of 1928 certificates which we have on hand amounting to almost \$350,000,000. The President said, is there not some way that we could distribute new silver certificates at a bank near Boulder Dam so that when the men came to have their checks cashed they would be paid with these new silver certificates. He said this would have a twofold effect. In the first place it would dramatize the use of this new silver money so that the man on the street would understand it and consequently it would keep us from being criticized by Senator Thomas that we were simply using the new silver certificates to take the place of the worn out silver certificates which are returned to us. I believe that in the case of the \$5. we are doing just what the President wants but I am looking into the whole matter of the printing and circulation of money which is of course a new subject to me but I am educating myself by actually directing how the money should be sent out.

The President spent almost half an hour going over my speech. He seemed to like it very much but said that Governor Brann of Maine wants just this kind of a speech given and I was thinking of sending Jesse Jones up to make the speech. He said I think you should give your speech about Sept. 5th, after Labor Day when people have returned to their homes as during the month of August so many people are away that you will not reach

them over the radio. It is interesting how he thinks all of these things out. A rather dramatic thing happened between us. I asked him to read the last page of my speech in which I say that we are looking forward to a balanced budget. He tried to re-write it and then finally said, I just don't see how you can make a statement like this because of course we are not going to be able to balance our budget in 1936. He said we have not provided anything for unemployment and public works. So I said, well cross it out - which he did. But I felt that he was very much worried over this situation.

He said you know my idea about how I think we can finance ourselves. He said, take Boulder Dam for example, it will be completed by 1936 and why can't we issue, let us say, four hundred million dollars worth of bonds against Boulder Dam which could be amortized and retired over a period of 30 years. He said we have a lot of projects like this and I wish you would be thinking about it.

I gave him two letters on silver, photostat copies of which are attached hereto, which he read very carefully and would not sign until he thoroughly understood them.

Dined with the Coolidges. Coolidge seemed upset because the President and I do not consult him enough on fiscal matters. He feels as Under-Secretary that he is the outstanding expert in the Treasury on fiscal affairs and his advice should be sought on all matters pertaining to fiscal affairs. Had a long discussion about silver and I explained to him that the reason I had not consulted him on silver was because I did not believe he wanted us to do anything on silver and that after all the President had ordered him to buy one and a half million ounces of silver a day and the fact that he had not done it left only one conclusion in my mind, namely, that he did not believe in it and therefore had not carried out the order. Coolidge said he had not realized that the President had ordered him to do this and if he had realized it was an order of course he would have carried it out. I told him that the first opportunity he got he ought to explain this to the President who evidently was under the same misapprehension that I was. He talked around some about not knowing whether he could stay, etc. and I told him very frankly that the President would always want to do things his own way; that he had seen now for months how I conducted myself and that I could not and would not attempt to sell myself to him and that either he believed and had confidence in me or he did not. That, of course, I expected 100% loyalty and he assured me that as long as he stayed that I would have that. I think that one of the underlying things that is worrying Coolidge is that he does not like Oliphant and that he feels Oliphant is more important than he is. This is just a surmise on my part. I left feeling that we had a good talk but I hope that I do not have to have many more like it with Coolidge. I

also feel that as long as he does stay with me he will be 100% loyal. I do not have to worry about that.

Tuesday - August 14th - I called up the President and told him that we issued licenses to the Guaranty Trust to ship one million dollars worth of gold to Paris. This is the first shipment since we went off gold. Told the President the price of gold in London was up to 35.52. Quick as a flash he said, well, maybe we will have to do something about the price of gold in this country and I replied, please do not tease me, it is too early in the morning. He laughed very heartily over the phone.

[Faint handwritten signature]

THE WHITE HOUSE
WASHINGTON

August 13, 1934

My dear Mr. Secretary:

Pursuant to the authority vested in me by Section 12 of the Gold Reserve Act of 1934, I hereby authorize and direct the issuance of silver certificates against silver in the Treasury not then held for the redemption of any outstanding silver certificates and in a face amount equal to the amount returned for silver received at the United States Mints and Assay Offices on and after June 15, 1934, whether under the Proclamation of December 21, 1933 or under the Proclamation of August 9, 1934.

Pursuant to the authority vested in me by Section 7 of the Silver Purchase Act of 1934, I hereby direct that such portion of the foregoing silver as is not held for the redemption of silver certificates shall be added to the monetary stocks of the United States and held as bullion in the general fund of the Treasury, but shall be carried on the books of the Treasury at cost.

Sincerely yours,



The Honorable

The Secretary of the Treasury.



THE SECRETARY OF THE TREASURY
WASHINGTON

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August 13, 1934.

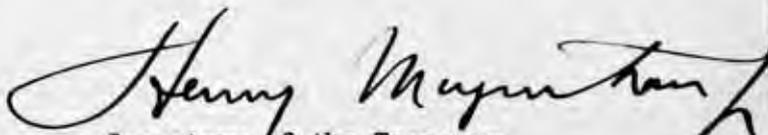
The Treasurer
of the United States.

Sir:

Pursuant to the authority vested in me by Section 5 of the Silver Purchase Act of 1934, I hereby authorize and direct the issuance of silver certificates in denominations of \$1, \$5, \$10, \$20 and \$100 against silver in the Treasury not then held for redemption of any outstanding silver certificates, and in a face amount equal to the cost of the silver heretofore or hereafter purchased under the authority of Section 3 of such Act, whether purchased from the Stabilization Fund constituted by Section 10 of the Gold Reserve Act of 1934 or from other sources.

The portion of the foregoing silver not held for redemption of the silver certificates referred to shall be added to the monetary stocks of the United States and held as bullion in the general fund of the Treasury, but shall be carried on the books of the Treasury at cost.

Respectfully,


Secretary of the Treasury.

Approved:



The White House

August 13, 1934.

August 20th

Lunched with the President who said he was in a very bad humor. He said, I have had a terrible thirteen hours. At Midnight they woke me up to tell me that Rainey had died. I had to write Mrs. Rainey a telegram and sent one to Jack Garner and he said, it thoroughly woke me up. He then went back to sleep again and again they woke me up at 5 o'clock when they dropped anchor. He said, I have had a terrible time this morning with Hugh Johnson and Miss Perkins. Miss Perkins carried on terribly. He did not give me any further details.

He then said, I want to tell you something very confidentially. A man telephoned me this morning who had just spent 7 hours with Father Coughlin. He said, the Father had been spending most the summer travelling around the United States with his collar button in front, talking to the people. He said that Father Coughlin had found him so strong that he does not dare attack him. The Father is going to attack the anti-semites and Wallace for his destruction of crops and he is going to sing H.M., Jr's praises and is going to say that if the country does not back H.M., Jr. up as Secretary of the Treasury that Roosevelt's administration will fail.

The President sent for Monday's Washington Herald and read Brisbane's statement on my handling money: (It is attached on next page). The President said, I would love to send him a sarcastic telegram on his statement - but we need the Hearst papers. He seemed very much upset and said, I suppose this is the way they are going to attack us because we are letting gold go out of the country. I told the President what Warren had told me - namely, that he, Warren, thought we were perfectly safe in letting \$35. gold go out of the country because we would be using that to buy silver and Warren said there is only one way for silver to go and that is, up and he furthermore said he would rather own silver today than gold. I told the President that I wish he would be thinking over whether or not the seigniorage or profit on the silver purchased since the 14th of June under the Silver Purchase Act should go into the Treasury under miscellaneous receipts like say - income tax receipts and be spent or whether we should put it into the General Fund and treat it like the profit on the gold so that we could not spend this silver profit unless directed so by an act of Congress. I told the President that I thought we should not treat this silver profit as a miscellaneous receipt. It was a new idea to him and he said he would think it over.

Today

Quite Easily Said.
Earth's New Motion.
We Ship Gold.
What Next?
All Roll Over.

By Arthur Brisbane

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Syndicate, Inc.)

THE BIG STEEL COMPANIES talk of abandoning the NRA code altogether, fearing the consequences of putting their industry absolutely in the control of organized labor.

"More easily said than done," they will be told. An old horse mired in a swamp might talk about "abandoning the leeches that cling to him," but the leeches would cling. American industry must go all the way through the process of being managed by those that never successfully managed anything else before. Maybe the experiment will lead to the millennium, maybe not. All must hope and cooperate, even the mired horse.

Mr. Green, head of the American Federation of Labor, urges unions to drive "the Reds" from their ranks by expelling all Communist members. Mr. Green demands that labor "make war upon communism." That will please some frightened "best minds." Perhaps Mr. Green will add a demand that racketeering methods be also driven from some unions. He can learn from business men how welcome that move would be. It would, however, reduce the earnings of some important "leaders."

One item in the day's news will be news forever, or as long as men live here. Dr. R. F. Sanford, California scientist of Pasadena, has discovered and can prove that the earth has a fourth important motion added to the three with which you are familiar; the first, turning every 24 hours on its axis; the second, traveling around the sun, once in 365 days, in an ellipse; the third

traveling with the sun, on its mysterious journey through space, toward the constellation of Lyra. That third motion, like that of a calf walking around its mother, as the mother walks across the pasture, is a spiral motion.

To the three principal and universally known motions, Dr. Sanford adds a fourth, caused by the sun, swinging in a great circle around the center of our galaxy or "Milky Way" in that fourth great movement. The earth, compelled to accompany the sun wherever it goes, swings through space at a speed of one hundred and fifty miles per second. Earth turns on its axis, about one thousand miles an hour, travels around the sun about nineteen miles a second, or 68,400 miles an hour. The sun drags us through space, toward Lyra, at twelve miles a second. The "big swing" around the central point of our galactic system is made at a speed of 340,000 miles an hour.

Even that is not all. The earth has all sorts of queer little motions of its own and it has a fifth principal motion, traveling with our sun, and the millions of other suns in the Milky Way, as our little "universe" travels around some distant unknown central point in space. We know that the nebulae or "outside island universes" in space are all in motion, astronomers actually see them moving, and, of course, our star-city, and, of course, our star-city, called the "galaxy" moves, as do the other nebulae. Nothing stands still in the universe.

It is pleasing to know that Mount Wilson Observatory makes its sidereal calculations of speed and motion "with the aid of 146 cool red stars, scattered about the sun at distances which average about 2,000 light years or 12 quadrillions of miles.

It's a big universe and in it, 2,000 light years of four quadrillions of miles represent a small distance. There are nebulae distant one billion light years from our planet. You can figure that in miles, multiplying by 186,000, the number of seconds in one thousand million years.

Anyone not interested in these fourth and fifth motions of the earth and the size of the universe should join Plato's men, sitting in his famous cave, facing the wall, their backs to the light.

Lloyd George, in his memoirs, says that while England was borrowing American dollars so industriously, the "United States, shocked by the cost of war, was suspicious as the Allies asked for credit." He does not add, as he might, that Americans would have been wise to refuse the credit, since all of "our gallant Allies" have turned out to be gallant wasters.

The latest display of American financial genius consists in shipping American gold abroad. First, the Government took away any gold that American citizens happened to have. It was too good for them. Then we raised the price of gold to \$35 per ounce, nearly doubling it, thus enriching the British that own the world's principal gold mines. Now we start sending abroad that gold, bought at fantastic

prices with American taxpayers' money, or taken from citizens by high-handed methods.

If there is among the African bushmen a six months old infant that knows less about money than the gentlemen that manage the finances of this country, that infant should be exhibited here as the legitimate successor of Barnum's "What-is-it."

Russia uses one of the finest former residences of the czars as a summer and health resort for workers.

Sun baths are recommended and are taken in mass formation. Hundreds stretched out, side by side, gazing upward, absorbing ultra violet rays, hear a bell ring, instantly all turn over to take the sun on the other side. The bell rings again, and all turn on their backs, again.

Surely there is in that Russian arrangement some valuable suggestion for our Government management of all activities. You could not imagine our great industrialists all rolling over at the sound of an NRA bell, but the idea could be used in SOME fashion.

This is good news. Despite all our troubles, drought in-

cluded, farm incomes for 1934 are up more than one billion dollars. Government gives the figures as follows: For 1934, \$5,850,000,000. For 1933, \$4,555,000,000. That includes a money paid by Government to farmers for NOT planting, for

farrow sows, later drowned with their unborn pigs, etc. Some suggest that the drought was a punishment for drowning those innocent little pigs, but you could not imagine Providence putting an unborn pig, eyes not even open, yet, ahead of the plans of college professors.

Is there too much baseball in prison life? In the Illinois Pontiac Reformatory, the prisoners were playing baseball as usual. Only thirty guards in charge of 2,400 men. The customary riot broke out, prelude to a "general break." The attempt failed, for rifles "cracked" promptly, sixteen were shot down, some will die, three guards were beaten, the print shop was set on fire, flames spreading to the laundry and store room, prisoners yelling "burn the whole place down."

The 2,400 prisoners were all young men, from seventeen to twenty-six years of age. That is the important detail.

August 20th

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He then said to me, I now have one for you. What would we do if the gold miners in the United States decided that it was more profitable to sell their gold in London than the U.S. Treasury. Could we raise the price of gold on newly mined gold? I told him I thought we could. The interesting thing in his asking me this question is that I could tell that in the back of his mind he is thinking about raising the price of gold.

I showed him the clipping from the New York Times which pointed out that our favorable balance of trade is about \$300,000,000 a year; that if we purchased that amount of silver abroad it would be just the same as purchasing that much goods and will be helpful in stabilizing our world trade. (Clipping attached on next page). He read the clipping very carefully and it seemed to make a real impression on him. I told him that Wallace had been saying that we had to increase our imports by \$250,000,000 a year and that when I had explained my silver program to Wallace that he was most enthusiastic about it and said this ought to see us thru the next twelve months. In showing the President the weekly statistics he seemed very much discouraged as to any possibility of immediate pick-up in construction. He turned to me and said very earnestly and emphatically, you tell me what kind of a new building you need on the farm or what would you build in New York City. He said, you can't answer me. There is no answer. He said, I do not think that building will increase and he said Lew Douglas has been entirely wrong in what he has been telling me the last year.

At 7:50 P.M. my telephone rang and Grace Tully said the President wanted to speak to me. He got on the phone and in a very very serious tone of voice said, I am awfully sorry Henry, but at lunch today I forgot to tell you something very important. He said, it is something which will please you very much. I want to inform you that Mrs. Rainey is going to run for Congress; whereupon I burst into gales of laughter and said to him, as a comeback, Mr. President, I think it is terribly mean of you that you do not invite me down to your cocktail party, whereupon he went into peals of laughter and said, Grace and I together will drink to your health. It certainly is wonderful for me to be on such an intimate footing with him and it is incidents like this which make me feel how close I am to him.

August 21st.

Called Ray Atherton at the American Embassy in London at 7:30 this morning and asked him to try and find out how much silver there was on hand in London. He said that things were very quiet in London and that everybody was away. Called Coolidge at 8 and asked him to consider purchasing this week

two and a half million dollars of each of our two 3% issues. He said he thought it was a fine idea and he would see that it is carried out carefully and very quietly. He said if the market should go down further I would like to buy even more and I said fine. During the morning I decided that I must go out and visit some of the distilleries and rectifying plants to see how the operations are carried out as I am sure that from actual contact I would get some good ideas on enforcement. I also want to get word to Father Coughlin and suggest to him that he take up the question of liquor enforcement. I should think that this would appeal to him.

NEW YORK TIMES August 19, 1934

WIDE GOLD SPLIT-UP SEEN IN SILVER PLAN

Redistribution of Yellow Metal
Expected From New
Policy Here.

CALLED WORLD TRADE AID

Many Economists Lay Recent
U. S. to National Unemployment
Holdings on Gold.

The redistribution of a part of the huge gold reserves of the United States probably will result from the program of silver purchases upon which this country has embarked. The objective of a 25 per cent ratio of silver to gold in the monetary stocks of the country is estimated to require the buying of about 1,300,000,000 ounces of silver, at least 1,000,000,000 of which will have to be obtained abroad.

These large purchases can be paid for only by the United States' favorable balance of trade and by gold exports. Assuming that the silver could be bought at an average price of 75 cents an ounce—and many bankers doubt that the Treasury could acquire so huge a store of silver without driving the world price up to our statutory limit of \$1.29—at least \$750,000,000 would have to be spent abroad.

Last year the United States had a favorable balance of payments of \$210,000,000. In 1932 the favorable balance was only \$131,000,000. Currently the favorable balance is estimated to be running at about \$25,000,000 a month. This means that the United States could buy about \$300,000,000 annually of silver, all other things being equal, with the credits obtained abroad from its favorable balance of payments. All purchases above this amount would have to be paid for by shipments of gold.

Silver's Effect on Balances.

The problem is, however, not quite so simple as that. It is expected that the silver purchases will themselves affect our balance of payments. As was seen last week, the mere announcement of the nationalization of silver and of the Treasury's intention of printing silver certificates to the value of \$1.29 for each ounce of silver in the Treasury acquired prior to the Silver Purchase Act was sufficient to turn the balance of international payments strongly against us, resulting almost immediately in the loss of gold.

It is to be expected, according to bankers, that the continued buying of silver abroad by our government will be accompanied by a tendency for funds to leave this country or, at any rate, by a retardation of the movement of funds toward this country. This might be sufficient to reduce our favorable balance of payments to materially below the level at which it is now running or even to wipe it out. If that were the case the purchases would have to be paid for by exporting gold.

Such a prospect is by no means disconcerting to bankers. Leading economists here and abroad have ascribed a part of the world's troubles to the so-called maldistribution of gold. Most of the prescriptions for world recovery written by orthodox economists in the last few years have included a recommendation for the redistribution of some of the gold held by this country and France.

Redistribution of Gold.

Apart from the suggestion that the United States should become an importing nation, there has been little in the way of concrete examples of how redistribution might be accomplished. The silver purchase plan, however, whatever may be its other implications to economists, promises to provide a means for this redistribution which does not involve the lowering of our tariff walls or the conversion of this country into an agricultural economy.

The United States easily could afford to pay gold for the entire amount of silver to be bought abroad. If the purchases could be made at a total cost of about \$750,000,000, it would be possible to pay gold for all the silver bought and still not use the entire amount of gold that we have taken from the world since the revaluation of the dollar on Jan. 31. Since that date international transactions in gold have yielded this country a net increase of more than \$850,000,000, apart from the gains to the monetary stocks from newly mined gold and sales of scrap gold.

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, August 29, 1934.
8-28-34.

Press Service
No. 2 - 70.

A speech to be delivered Tuesday, August 28, 1934 at 8:00 p.m. Eastern Standard Time, by the Secretary of the Treasury, Henry Morgenthau, Jr., over a nation-wide joint hook-up of the National Broadcasting Company, Columbia Broadcasting System, and American Broadcasting Company.

THE TREASURY'S FINANCES

I propose tonight to discuss with you the cost of the New Deal. I will avoid the jargon of the usual financial statement and will try to give you in plain language a concise but complete explanation of the essential facts.

On March 4, 1933, when the present administration came into office, the gross public debt of the United States stood at a little less than \$21,000,000,000. By June 30 of this year it had increased to \$27,000,000,000, or an increase of about \$6,000,000,000. This is the gross increase in the national debt during the first year and four months of the new Administration.

Some observers have concluded that it also represents the cost of the New Deal during that period, in so far as such cost is reflected in a growth of the public debt. This assumption is easily made, but it ignores the all-important fact that, while we have increased our debt, we have also increased our assets, many of them in realizable form. By this I mean assets which in due time the Government will turn into cash, thereby making them available for reduction of the national debt.

A good business man takes a periodic inventory of the stock of goods on his shelves, to see if his inventory has increased or decreased. Let us do

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Tuesday - August 28, 1934.

*File under
Address
Hoffman
only
Coburn*

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✓
NAC

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REPORT ON RESPONSE TO SECRETARY'S RADIO SPEECH

782834

I. Number of Responses

Anonymous 6
 Signed 148
 154

Analysis of Anonymous

- (a) Favorable - 1. -- Telegram. "Broadcast Model of Radio Speeches".
 (b) Nasty - 5.

Postcard, newspaper clipping pasted on. "Mr. Morgenthau's broadcast terrible. Complete ignorance or deliberate misrepresentation". Asks "When are the Democrats going to give back the gold they stole?"

"Thanks for fairy tale".

Pronunciation of "finance" wrong.

Criticism of devaluation. Signed "Tory Republican"

Secretary failed to inform the public about the three million dollars owed the United States by C. Dawes.

In addition there was correspondence between broadcasting stations and newspapers, in the course of which the American Broadcasting Company wrote that the speech was "mechanically perfect".

II. Signed Mail Analyzed.

| | |
|--|----------|
| (1) Requests for copies of speech | 26 |
| Speech only | 22 |
| Speech plus financial papers, etc. | 3 |
| Letter saying Committee is circulating copies widely | <u>1</u> |

26

(One request was from the Japanese Finance Committee for the Imperial Japanese Government)

(2) Simple Congratulations.

Wires and letters with little or no comment, but favorable 24

(Two asked for copies of the speech. Eleven praised delivery as well as content.)

Typical Phrases Were:

- "The heartening and understandable facts."
- "helpful to improve public understanding and confidence".
- "masterly and simple address".
- "very effective and valuable at this particular time".
- "splendid idea".
- "very instructive and interesting".
- "business proposition presented in a business way".
- "one of the most convincing documents that has come from the Cabinet in this Administration".
- "You analyzed things so plainly and spoke so understandingly".
- "a great service, not only to the Administration, but to the country at large".
- "clearly expressed and remarkably interesting verbal report".
- "clear, concise and splendid".

(3) More Detailed Praise of Whole Speech or Selected Parts. 17

Three asked copies of the speech. Seven specifically praised plan of monthly report on finances.

Typical Comments Were:

- "I do not think that anything has happened in Washington recently of greater importance to the business men of the country than this".
- "it is constructive, statesmanlike and far reaching".
- "Many thanks to you and your department for what has been done to help in Recovery, not alone of material adjustments, but in the recovery of faith in the goodness of man".
- "lucid discussion in simple terms".
- "there was nothing wrong with your speech which might be indefinite".
- "Many with whom I have talked now have an entirely different view".
- "I can truthfully say that my friends are delighted to have received such a plain, frank statement. -- you are doing a fine job. -- I am considered a Republican, having held office as such in my own town".
- "Your frank, simple and democratic approach was marvelous. Everybody here was thrilled by it. May I venture that you added millions of supporters by that one talk. I made a quiet, personal canvass in the place I work this morning and everybody was greatly impressed".

- "most clear and comprehensive exposition of the country's condition".
- "The Treasury Department remembers wisely that the Nation is the people".
- "A Splendid public service".
- "The President used very good judgment when he placed you on the job".
- "very concise, able and efficient statistical report".
- "Certainly no honest conservative can slander the financial policy of the Administration after your clearcut statement".

(4) Letters containing suggestions 25

| | |
|-------------|----------|
| Friendly | 18 |
| Unfavorable | 1 |
| Neutral | <u>6</u> |
| | 25 |

Suggestions include:

| | |
|--|---|
| Inflation | 5 |
| Help the small business man | 3 |
| Pay the bonus | 2 |
| Raise the price of gold | 2 |
| Makes more radio talks | 5 |
| Improve banking facilities and loosen credit | 3 |

One each of the following:

Put your speech in bank statement form; Consolidate U. S. debt and cut interest; Let national banks pay interest on accounts; Less Washington control and more adherence to platform pledge; Lower taxes; List public buildings, dams, etc., as assets; Pay government obligations with cash; Segregate figures on gold balance. There also was a request that the Secretary set his desk clock, and one man said misleading business charts being widely distributed. Sent

(5) Critical 10

| | |
|---|---|
| Used speech to criticize Administration's policy in general | 1 |
| Criticize devaluating dollar and/or emphasizing profit taken thereby | 5 |
| Criticize analogy of merchant "taking stock", point out that a merchant cannot devalue his assets | 2 |
| Rep "Double Budget" as political expedient | 1 |
| Too conservative in figuring assets | 1 |
| Tie up speech with printed report of F.D.I.C. and attack both | 1 |
| Criticize inadequacy of broadcast announcements | 1 |

(6) Questions -- Total 45

All but 5 letters favorable or friendly in tone.

Two types of questions:

1. Facts answered directly by Treasury figures, copy of speech or published Treasury statements.
2. Questions requesting opinion on future policies or trends, answered favorably, or told no discussion possible.*

(a) Fact letters:

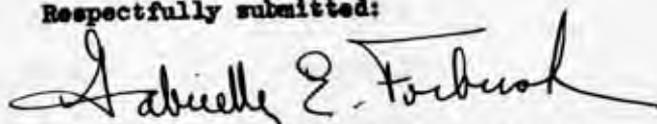
| | |
|---|----|
| Requesting specific information on the gold policy | 11 |
| Compares with "writing up" the value of investment assets | 2 |
| Actual figures for relief expenditures requested | 4 |
| Request information on Government's liability for H.O.L.C. bonds | 2 |
| What will happen to H.O.L.C. and F.C.A. bonds in case of default | 1 |
| What is the value of the investment assets mentioned by the Secretary | 1 |
| Why so much short-term borrowing | 1 |
| Why can't market increase in Land Bank bonds, etc., be used to reduce the public debt | 1 |
| What obligations of foreign governments does the Treasury hold | 1 |
| Why is Postal Savings interest lower than interest on other Government securities | 1 |
| Why are not actual properties, like the Panama Canal, listed in the inventory | 1 |
| Circulation figures requested | 1 |
| Daily statement requested | 1 |
| Information on coinage, paper currency, and cash on hand in vaults of banks | 1 |

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(b) Policy.

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| How long can deficit go on and/or what will be rate of increase | 3 |
| Requests for information on operation of Stabilization Fund | 3 |
| Why not issue currency instead of bonds *(This request answered by usual Treasury letter on subject.) | 3 |
| Requests Secretary's opinion on private ownership of power | 2 |
| Asks for views on inflation | 1 |
| How is the cash balance determined | 3 |
| When can taxes be reduced | 1 |
| "An unemployed" requesting what else is to be done for his class | 1 |
| Miscellaneous requests for help and/or information outside Treasury scope | 2 |

Respectfully submitted:



Research Assistant to the Secretary.

LETTERS RECEIVED IN RESPONSE TO RADIO ADDRESS

| | |
|---------------------------|-------------------|
| ADAMS, George M. | California |
| ALLEN, G. W. | New York |
| ALTREE, Blanche | Oregon |
| AMES, Theo. H. | New Jersey |
| ANDREW, George L. | Minnesota |
| ARNOLD, F. H. | Rhode Island |
| ASTON, Arthur | Maryland |
| BAMBERGER, Clarence | Utah |
| BARNUM, L. | Oregon |
| BENNETT, Geo. E. | Oklahoma |
| BIRDZELL, L. E. | Washington, D. C. |
| BLAUVELT, Nicholas G. | New York |
| BOLLINGER, Paul T. | Michigan |
| BOYDSTON, Tom D. | Oklahoma |
| BRENNAN, Mary M. | Michigan |
| BROUGHTON, C. E. | Wisconsin |
| BURK, Chas. J. | Illinois |
| CAMPBELL, Donald W. | Massachusetts |
| CARNEY, J. Russell | Washington, D. C. |
| CASE, POMEROY & CO. INC., | New York |
| APPT. R. R. Johnston | Kansas |
| CHANDLER, Chas. J. | |
| CHATHAM, L. C. | California |
| CHERRY, G. A. | Ohio |
| CHILDS, Fred'k. W. | Vermont |
| CHURCH, Berlin C. | Colorado |

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|----------------------|-------------------|
| CIMRAL, Frank J. | Illinois |
| COKELEY, Jerome J. | New York. |
| COMMERCE - Sec'y. | |
| CRAWFORD, Fred'k. L. | New York |
| CRAWFORD, Daniel | Pennsylvania |
| DANA, Deane | New York |
| DAY, George W. | New York |
| DELANO, F. M. | New York |
| DELANO, Fred'k. A. | New York |
| DIECKMANN, R. J. | Iowa |
| DI VERUTI, B. | Massachusetts |
| HAVERSON, Edgar R. | New Jersey |
| EVANS, Silliman | Maryland |
| THE FARMERS BANK | Tennessee |
| FEHLANDT, Albert E. | New York |
| FINNEGAN, Jos. A. | Pennsylvania |
| FOLEY, Hamilton | Pennsylvania |
| FORBUSH, A. R. | Washington, D. C. |
| GANS, Isaac | Washington, D. C. |
| GATES, Arnold F. | Ohio |
| GETMAN, A. K. | New York |
| GIFFIN, F. A. | New York |
| GOGGIN, Jno. J. | Illinois |
| GOREN, A. J. | New York |
| GOTTLIEB, Joe | Louisiana |
| GRANATH, Glenn M. | Illinois |
| GREENBURG, George | Illinois |
| GRIFFENHAGEN, H. G. | Illinois |

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|-------------------------|-------------------|
| GUMBRAGEI, Wa. A. | Pennsylvania |
| HAAS, Robt. | New York |
| HALSEY, Edwin A. | Washington, D. C. |
| HAMMOND, C. S. | Illinois |
| HANCOCK, B. A. | Maryland |
| HARRINGTON, James E. | Massachusetts |
| HAYES, J. E. | Kansas |
| HENDRICKS, H. G. | Washington, D. C. |
| HINES, J. H. | Georgia |
| HOOVER, G. C. W. | Alabama |
| HOUSTON, M. Elliott | Colorado |
| HUDAK, Mary A. | Ohio |
| HUGHES, Thos. J. | New Jersey |
| HUMPHREY, Fred'k Blaine | Nebraska |
| IHARA, T. | New York |
| ISLER, Ben Q. | New York |
| JOHNSON, Milo B. | Washington |
| KERRER, G. | Pennsylvania |
| KELLER, M. Elliott | New York |
| KENDRICK, Jno. A. | Washington, D. C. |
| KNUDSON, C. C. | Arizona |
| KONKEL, J. S. | Minnesota |
| KRESS, Geo. F. | New York |
| LAMBERT, Ovilla | Rhode Island |
| LANG, Francis J. | Massachusetts |
| LARSON, C. W. | New York. |

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|-----------------------------------|---------------|
| LAV, F. M. | Texas |
| LEHMAN, Herbert H. | New York |
| LESLEY, Conrad C. | Pennsylvania |
| LEVITAN, Solomon | Wisconsin |
| LEVY, Jules G. | New York |
| LORENZO, Thos. A. | New Jersey |
| LOWAGIE, Reai | Michigan |
| MCCORMACK, David G. | New Jersey |
| McMILLAN, J. B. | Texas |
| McRae, Bill | Florida |
| MacDuffie, John | Massachusetts |
| MEILACHOWITZ, Chas. | Pennsylvania |
| MILLER, Milton A. | Oregon |
| MILLER, Robt. F. | Massachusetts |
| MORGAN, E. W. | Michigan |
| MORGENTHAU, Mr. & Mrs. Henry, Sr. | |
| MORNESS, T. J. | Minnesota |
| MUELLER, F. H. | Ohio |
| MUNDAY, H. D. | New York |
| MURRAY, G. W. | Maryland |
| NETHAWAY, Claude L. | Nebraska |
| NETHERLAND, Wood | Missouri |
| O'CONNELL, J. J. | Texas |
| PARSONS, J. B. | Massachusetts |
| PATTEN, Harry R. | New York. |

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|------------------------|-------------------|
| FETTIT, B. M. | Indiana |
| PFLINGIER, Paul A. | California |
| POHN, Sylvia J. | Pennsylvania |
| PORTIS, T. G. | Missouri |
| POTTER, Alden A. | Maryland |
| PRESTON, James H. | Maryland |
| REBMANH, Geo. B. | Pennsylvania |
| REILLY, M. K. | Wisconsin |
| RICHBERG, Donald R. | Washington, D. C. |
| ROLLER, Katherine H. | Washington, D. C. |
| SCHLESINGER, Milton J. | West Virginia |
| SCHLUSSEL, Seymour | New York |
| SCHOLTER, George | Pennsylvania |
| SCHROEDER, R. C. | Missouri |
| SCOTT, Eli T. | New York |
| SEIGHERT, Henry | New York |
| SENSENEY, JEANNETTE L. | Pennsylvania |
| SEYMOUR & TROESTER | Michigan |
| SHAPIRO, Samuel H. | Illinois |
| SIMONS, Joseph Wm. | Washington, D. C. |
| SINNOTT, James | Arkansas |
| SLADE, Wm. B. | New York |
| SNYDER, Warren K. | New Jersey |
| SPRADLIN, W. H. | North Carolina |
| STREETER, Elford D. | New Jersey |

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|-----------------------|-------------------|
| TASHLEN, Frank | New York |
| THEIS, H. A. | New Jersey |
| TILTON, McLane | Virginia |
| TUCK, Whitfield | Massachusetts |
| VANDERBILT, Cornelius | Washington ,D. C. |
| VORHEBERG, Felix | Massachusetts |
| WALD, Lillian D. | Connecticut |
| WALTON, Kenneth E. | New Jersey |
| WEISEL, Albert | Maryland |
| WESTERVELT, G. P. | New York |
| WILSON, Howard H. | New York |
| WOODARD, Mattie C. | Pennsylvania |
| YEO, F. H. | Massachusetts |
| YOUNG, A. Frank | Maryland |

Sept. 8th

Conversation between Mr. Morgenthau and
Mr. Grimes of the Wall Street Journal

H.M., Jr.: I read your story in this morning's paper. Off the record - has it occurred to you that whoever is buying these forward dollars has sufficient confidence in it to look forward for 90 days? You get the significance of that don't you? This operation in the dollar franc is in futures and it is a 90 day future, see ?

Grimes - As you know, I am more or less superficial on these things. I don't get the picture.

H.M., Jr: Somebody might interpret this thing as a movement to stop gold from leaving this country. That is not what is back of it but the conclusion which you might draw is that we here think the dollar looks pretty good 90 days from now.

Grimes: I get it. It is absolutely clear now.

H.M., Jr: I am telling you this in strictest confidence, but you can guide your writing along those lines.

Grimes: Thank you very much.

H.M., Jr: You never talked to me.

Grimes : No, I haven't.

August 29th

Saw Moley for lunch. I told him about my silver plan and he said that that was an answer to the Foreign Debt question. They have been saying that we have to cancel the foreign debt because otherwise we bleed Europe in order to pay us interest and if we take over this silver from abroad they no longer can say that we have to cancel the debts because the only way we can pay them is with gold.

September 5th

Mr. Morgenthau spoke to George Harrison this morning in regard to selling francs short and buying dollars for 90 day delivery. The following are some of the statements made by Gov. Harrison on the phone:

This procedure will have no direct control on the stock market. If there is a leak it may have an effect that you want to give some confidence because of the fact that the government is buying future dollars. It is hard to tell what the reaction will be. I am scared about any new artificiality. I do not know how it will be interpreted. The only risk to the Treasury selling francs that it has not got, is that it is selling short. If you sell francs now, in three months you might be unable to get them. If your purpose is to lend confidence to the dollar, by the fact that the government is buying future dollars, it might be construed as a lack of confidence in the franc, which you are selling short for future delivery and what will the French say? That being so, I would suggest that if you decide to do it that we call up the Bank of France today and say we understand that the Treasury is going to do this tomorrow and these are the reasons and minimize any risk that might be misunderstood there.

Governor Harrison then said the way to do it is to go to the Guaranty and say sell, for instance, 10,000,000 francs for three months delivery.

Lochhead made the suggestion that in talking to the Bank of France that we say we are prepared to do it in other gold

countries, so that the French will not think we are picking on them particularly.

Governor Harrison telephoned about an hour later and said that he had talked to the foreign exchange man at the Bank of France and that they said that our plan might do some good. They said that it might be a difficult operation mechanically to carry out but it would be worth trying. Gov. Harrison also said that the forward market was so thin that we might get stuck in the process. The French said that the pound has been weak largely because of the selling of the dollar in this country and also because of the talk of devaluation that is going on.

Gov. Harrison said that he personally was not in favor of this plan but he would see that everything was carried out to Mr. Morgenthau's desire.

Dictated Sept. 8th

Last Friday, August 31st, went to Hyde Park with Coolidge, Oliphant and Viner to see the President. He sent for me alone and I found him taking a bath. He sat up straight in the bathtub and looked me straight in the eye and said, Henry (with great emphasis) in the words of John Paul Jones - "We have just begun to fight". He then went on to tell me that Douglas had been there the night before and tendered his resignation. The President said he did everything possible to urge Douglas to put it off until December 1st. He appealed to him on a patriotic basis and then as a Democrat. Douglas suggested Cliff Woodrum of Va. as his successor. The President said, check with Woodrum and see if he does not agree with me that it will hurt the party for you to resign before election. He said that Friday morning Douglas had telephoned him and said that Woodrum agreed that it would be very harmful to the party and that he had made up his mind that he was thru. He told the President that he had tried four times to see him unsuccessfully last June. The President said if you did, I knew nothing about it. The President seemed terribly upset and hurt. He said that he told Douglas that ten years from now he would be very sorry for what he had done.

The President then took my breath away by saying, what do you think of Tom Cochoran as Director of the Budget? I told him that it was absolutely out of the question, that Cochoran was an intellectual crook and that we had every reason to believe that it was Cochoran who gave out last November the unfavorable opinion on our gold action. The President seemed very much surprised. He said Felix Frankfurter certainly thinks highly of Cochoran and Cohen. I said I do not know anything about Cohen but I would not trust Cochoran as far as I could see him. I then felt it was up to

me to suggest somebody before the President made an irreparable mistake. I therefore suggested Daniel Bell. He liked the suggestion and took it. He said to me, I want you to stay after lunch and I want to talk to you about this some more. He then went down stairs and met with the rest of the people from the Treasury. The only important decision made was that the profit thru seignorage made on silver taken in after the 14th of June would be treated the same as the gold profit and not to be made part of the general receipts with the exception of two kinds of silver in which a precedent had been established for a long period, namely, seignorage on small silver coins and newly mined silver. This ends a long argument between Oliphant and myself. Oliphant wanted to use this profit as part of our general receipts.

In discussing the coming re-financing the President made a very good suggestion that we consider selling a five year note with the right to convert into a long term bond. After lunch when Viner came in to say goodbye, the President asked him a couple of questions. This gave Viner a chance to tell the President that he thought the movement to encourage new housing would be a failure. The President said, I agree. The President then asked Viner what he thought about price fixing and Viner said, I do not like it. You can't expect to get out of the depression by fixing prices and curtailing production and much to my surprise and intense interest the President agreed.

I then was with the President for about two hours alone in which we discussed further the Douglas episode. The President said, I know how to handle this. He said we will not give this out (Douglas' resignation) until four o'clock Saturday afternoon because by that time most of the editors will be away for Labor Day and the story ought to fall fairly flat. He wrote out in his own hand the press release and he said by announcing the appointment of Bell first and simply stating that he accepted Douglas' resignation he felt that the newspapers would emphasize Bell's appointment rather than Douglas' resignation, and he was right. He took great delight in thinking this out. I then arranged with Mrs. Klotz in Washington that Bell should stay within reach of the telephone for the next couple of days but not giving him any inkling why. The President emphasized to me the fact that he had not told either his wife or Miss LeHand or McIntyre one word about Douglas' resignation - and as he put it - you are the only person in the world who knows about this beside myself. Saturday morning the newspapers broke the Douglas story having undoubtedly gotten the information from Woodrum. I called up the President and asked him if he was going to go thru with his program and he said, yes. I said, when are you going to call up Bell and he said about 4 o'clock. He did call Bell about 4 o'clock and that was the first inkling that Bell had of his appointment.

Saturday evening at 6:10 the President and his party arrived at our house for a clam bake to the White House correspondents. The President came into my office in the house and he and I had cocktails together for 20 minutes. You could tell that he had a great weight off his shoulders. As the evening went on he began to sing songs and you could tell from the way he acted that a great load and worry was off his mind. As a matter of fact the people associated closely with him said that they had never seen him sing and be so jolly as he was that night since he became President.

Tuesday, Sept. 4th, about ten million dollars worth of gold left the country and it worried me considerably because I knew that it would worry the President and secondly it was not a natural movement and if it continued at that rate it could only be interpreted in one way, namely, a flight of capital from the United States due to lack of confidence. This together with the fact that our bond market kept going down was enough to make anybody nervous. Some time during the night I got the idea that there must be a mechanical way of checking the flow of gold by depressing the franc. I also felt if there was something that we could do to give concrete evidence that we did not intend to revalue gold in the immediate future that it would be most helpful towards restoring confidence in the dollar. I called up Coolidge about 8 o'clock and told him that I wanted him to be thinking about our depressing the franc below the gold export point. He seemed quite cheerful at the suggestion when I explained to him that I was willing to have people understand we had no immediate devaluation in mind. On reaching the office Wednesday morning, I immediately called up Geo. Harrison and explained to him my ideas and asked him whether he could not work out a method to carry out my suggested plan. Harrison did not like the suggestion at all and was very argumentative. At this stage Coolidge was most helpful and backed me up 100%. Viner liked the program; Lockheed was most insistent that the way to carry it out was to sell future francs short rather than spot francs. While waiting to hear from Harrison I called up the President and told him that one of the reasons why gold was leaving the country so fast was that I had been told that somebody in the White House had recently said that immediate devaluation was likely. The President very emphatically denied this. I told him of my plan and he approved heartily. I told the President if I did not hear from George Harrison by 10 o'clock that I would call him up and order him to carry out my program. A few minutes before 10, George called me and you could tell that he had now come around. He kept insisting that what I wanted to do would be interpreted as a method of interfering with the flow of gold between countries in the gold block. I told him that this was not the fact and that I was perfectly willing to make a commitment for 90 days, therefore selling francs short; that we would not change the content of the gold dollar.

TREASURY DEPARTMENT

Washington

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RELEASE, MORNING NEWSPAPERS,
Monday, September 10, 1934.

9-8-34

Press Service
No. 2 - 86

Secretary of the Treasury Morgenthau is today offering for subscription through the Federal Reserve Banks two series of Treasury notes and an issue of bonds in exchange for Treasury certificates of indebtedness of Series TS-1934 maturing September 15, 1934 and Fourth Liberty Loan $4\frac{1}{2}$ per cent bonds called for redemption October 15, 1934. The offering is entirely on an exchange basis. Cash subscriptions will not be received.

Of the notes, one series, maturing in two years and bearing interest at the rate of one and one-half per cent per annum, is offered only in exchange for the certificates of indebtedness maturing September 15, which bear interest at the same rate. This is the only exchange offering open to the holders of these maturing certificates.

The second series of notes, maturing in four years and bearing interest at the rate of two and one-half per cent per annum, is offered only in exchange for Fourth Liberty Loan bonds called for redemption October 15.

An additional issue of $3\frac{1}{2}$ per cent Treasury bonds of 1944-46 is also offered in exchange for the called Fourth Liberties. Bonds of this additional issue are identical with and form part of the series first issued April 16, 1934. They will mature April 15, 1946, but are redeemable on and after April 15, 1944.

Thus holders of the called Fourth Liberties will have the option of exchanging for a four-year note bearing $2\frac{1}{2}$ per cent interest or a 10-12 year $3\frac{1}{2}$ per cent bond. In each case interest adjustments will be made so that all holders of called Fourth Liberties will receive interest on them in full to October 15, while on the securities obtained in exchange interest will accrue to them from September 15.

No other exchange offering will be made for these called Fourth Liberties.

The bonds eligible for exchange for the new securities are the Fourth Liberty Loan $4\frac{1}{2}$ per cent bonds of 1933-38 included in the second call for redemption, issued April 13, 1934. They are those bearing serial numbers ending with the digit 2 or the digit 8, which in the case of permanent coupon bonds are preceded by the distinguishing letters B or H. Their total face amount is slightly less than \$1,250,000,000. Interest on all these called bonds, whether they are exchanged or not, ceases on October 15, 1934.

The amount of Treasury certificates of indebtedness of Series TS-1934, maturing September 15, is \$524,748,500.

Holders of the maturing certificates of indebtedness or the called bonds who desire to take advantage of the exchange offering should act promptly.

A brief description of the three issues now offered for subscription follows:

Treasury Notes, Series D-1936

Treasury notes of Series D-1936 are offered only in exchange for Treasury certificates of indebtedness of Series TS-1934, maturing September 15, 1934. The notes will be dated September 15, 1934, and will bear interest from that date at the rate of $1\frac{1}{2}$ per cent per annum, payable semiannually. They will mature September 15, 1936, and will not be subject to call for redemption prior to maturity. The amount of the offering is limited to the amount of the certificates maturing September 15, 1934, tendered and accepted.

Treasury Notes, Series D-1938

Treasury notes of Series D-1938 are offered only in exchange for Fourth Liberty Loan 4-1/4 per cent bonds of 1933-38 called for redemption on October 15, 1934. The notes will be dated September 15, 1934, and will bear interest from that date at the rate of $2\frac{1}{2}$ per cent per annum. They will mature on September 15, 1938, and will not be subject to call for redemption prior to maturity. The amount of the offering is limited to the amount of such called Fourth Liberty Loan bonds tendered and accepted.

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

The Treasury notes will be issued in bearer form only, in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000, and the additional denomination of \$50 will be made available in notes of Series D-1938.

Treasury Bonds of 1944-46

3-1/4 per cent Treasury bonds of 1944-46 are offered only in exchange for Fourth Liberty Loan 4-1/4 per cent bonds of 1933-38 called for redemption on October 15, 1934. The bonds will be an addition to and will form a part of the series of 3-1/4 per cent Treasury bonds of 1944-46, issued pursuant to Department Circular No. 508, dated April 4, 1934. They are identical in all respects with such bonds, with which they will be freely interchangeable. These bonds are dated April 16, 1934, and will bear interest at the rate of 3-1/4 per cent per annum payable on a semi-annual basis. The coupon bonds will carry the semiannual coupon payable October 15. They will mature April 15, 1946, but are redeemable at the

option of the United States on and after April 15, 1944. The amount of the additional offering of these bonds is limited to the amount of such called Fourth Liberty Loan bonds tendered and accepted.

As more specifically stated in the official circular, the bonds will be exempt, both as to principal and interest, from all taxation except surtaxes, estate and inheritance taxes, and excess-profits and war-profits taxes; the interest on bonds of \$5,000 principal amount under one ownership will be exempt from all taxation.

Bearer bonds with interest coupons and bonds registered as to principal and interest will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING PAPERS,
Thursday, September 13, 1934.
9-13-34

Press Service
No. 2 - 92

Secretary of the Treasury Morgenthau announced last night (September 12, 1934) that the subscription books for the current offering of 1-1/2 per cent two-year Treasury notes of Series D-1936 will close at the close of business today, Thursday, September 13, 1934. Subscriptions placed in the mail before 12:00 o'clock midnight tonight will be considered as having been entered before the close of the subscription books.

The subscription books will remain open until further notice for the receipt of subscriptions for 2-1/2 per cent Treasury notes of Series D-1938 and 3-1/4 per cent Treasury bonds of 1944-46, offered only in exchange for Fourth Liberty Loan bonds called for redemption on October 15.

Announcement of the amount of subscriptions and their division among the several Federal reserve districts will be made later.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING PAPERS,
MONDAY, SEPTEMBER 17, 1934.
9-15-34.

PRESS SERVICE
No. 3 - 0

Secretary of the Treasury Morgenthau stated today that in response to the offering last Monday of two series of Treasury notes and one of Treasury bonds, in exchange for Treasury certificates of indebtedness maturing September 15, 1934, and Fourth Liberty Loan bonds called for redemption on October 15, 1934, subscriptions aggregating \$1,044,000,000 had been received up to the close of business Saturday.

The Secretary stated that subscriptions aggregating \$514,268,000 were received for the exchange offering of two-year 1-1/2 percent Treasury notes, open only to the holders of Treasury certificates of indebtedness maturing September 15, 1934, which offering closed on September 13. These subscriptions were allotted in full.

The Secretary stated that the subscription books for the four-year 2-1/2 percent Treasury notes and the 3-1/4 percent Treasury bonds of 1944-46, open on an exchange basis only to the holders of Fourth Liberty Loan bonds called for redemption on October 15, 1934, had not yet been closed, but that subscriptions have been received aggregating \$386,000,000 for the notes and \$144,000,000 for the bonds.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING PAPERS,
Friday, September 21, 1934.

Press Service
No. 3 - 8

Secretary of the Treasury Morgenthau announced last night (September 20, 1934) that the subscription books will close for the current exchange offering of 2-1/2 per cent four-year Treasury notes of Series D-1938 at the close of business Monday, September 24, 1934. Any subscription received after the close of business on Monday will be rejected.

The subscription books for the 3-1/4 per cent Treasury bonds will remain open until further notice for the exchange of Fourth Liberty Loan bonds called for redemption on October 15.

George then told me that he had spoken to the Bank of France and that it was agreeable to them. When I again explained to George that immediate devaluation was not on the horizon, the tone of his whole voice changed and you could tell that he was simply delighted.

Dictated Sept. 11th.

Bell and I called on the President at Hyde Park Saturday, Sept. 8th, at 10:30 A.M. We immediately went into the discussion of the budget. As near as I can remember Bell's figures showed that for 1936 we would only have a deficit of \$325,000,000. The President said, I might as well tell you everything I have in my mind and then you will have the worst. With unemployment running the way it is, I think we will have to spend a minimum of one and a half billion dollars for unemployment and one billion dollars for public works in 1936. He said, take N.Y.S. as an example, they have been selling for the last couple of years around forty million dollars worth of bonds to pay their unemployment bills. They can't keep on doing this indefinitely. As states like N.Y. and other units of government find it more difficult to raise the money, the Federal burden will increase by that much. Therefore, we may have to spend four or five billion dollars in 1936 to meet the unemployment problem.

The President said, let me tell you what I think Congress will suggest: That we keep our public debt at about where it is and then issue non-interest bearing bonds up to possibly fifteen billion dollars worth with a retirement fund - this money to be used for unemployment. I could not help but feel that this was an idea that the President was considering himself. He must realize that if we go ahead with any such expenditure in 1936 that it would be impossible to sell any more bonds and we will have to confine ourselves to one, two and three year notes.

I discussed with him at great length the idea of either me or I making a speech to show the savings in the regular departments made during the last fiscal year, and also really setting up a double budget - one for the regular expenses for the Government and the other for the extraordinary expenses. He liked this idea very much. As a matter of fact he suggested making this kind of a speech before he went to Hawaii. He said confidentially I am going on the air on the 27th and if you could have this material ready for me by the 24th, it would be fine. He did not agree to make the speech but I feel if he liked it the chances were good that he would. If he does not, I will. I then gave him an idea to think over of making the Budget a Bureau of the Treasury and heading it with Bell's Bureau. He/seem~~ed~~ to like the idea but I did not press it.
/-didn't

I told him that I thought one of his weakest points in his armor was the fact that he had no control over the spending of the Independent Agencies. I know that Douglas feels very bitter over the fact that his Executive Order was withdrawn early in January which would have brought the Independent Agencies in. The President said this is all right. Look up the old Executive Order and have it fixed up. He said, after all we are over the rush now and we can begin to do this sort of thing. He said you will not have any trouble with A.A.A. but you will with Ickes. I understand it was Harold Ickes who raised such hell about this order in January. In fact, the President said that Ickes objected violently to this order because he felt that Douglas being opposed to Public Works would use this order to retard Ickes' program which was most likely through.

Bell showed the President where he could dig up twenty seven million dollars for the C.C.C. Camps and the President brushed the memo aside and said, that could wait until I get back on the 24th. Bell then showed the President where it was possible to pick up five hundred million dollars out of N.F.C. for Harry Hopkins and he brushed that memo aside. Both of these gestures were most encouraging to me but certainly the news that the President expected to spend as a minimum two and a half billion dollars for unemployment and public works was most discouraging. We certainly have a difficult job ahead of us. Just where it will all end, heavens only knows.

After Bell left I showed the President Jackson's brief on the Mellon tax case. The President liked it. He then said to me, I am told that when Hearst returns he is going to attack the administration. Can't you look up his income tax and be prepared. I did subsequently look up his income tax and found that there was plenty there; also plenty on Marion Davies. I told the President on Tuesday that we thought it would be much better to proceed at once on Hearst and Marion Davies income tax before he attacked because if we stated something after he attacked us he would say that we were doing it to revenge and spite. The President agreed and I will tell Robert Jackson to start it at once. I do not know which is going to be worse - disclosing the names on silver or William Randolph Hearst and Marion.

Yesterday, Sept. 10th, with the President's approval I called up Governor Harrison and told him to get in touch with Governor Norman of the Bank of England, London, and explain to him our silver program and that we would be willing to consider arranging our purchases of silver so that they would not interfere with their stabilization fund operation; also I wanted him to begin negotiations for the purchase of silver owned by the British Government which I understand is some four hundred million ounces. I spoke later in the day to Gov. Harrison and he said he would talk to Norman on Tuesday.

Oliphant told me that Comptroller O'Connor stopped Opper in the hall and bawled him out for fifteen minutes because he

had tried to keep one of O'Connor's lawyers from being transferred out of the Comptroller's office over to F.D.I.C. I had in my office O'Connor, Oliphant and Oppen and I very quietly but very firmly told O'Connor that he was responsible to me and not to the President. I expected him to carry out my program of having a general counsel's office for the whole Treasury. O'Connor argued that he could not run his department if he did not control his legal staff. I told him that we had done this in Farm Credit and with every other Bureau in the Treasury and I saw no reason why it should not work in his office. He certainly could not misunderstand me when I got through.

I talked to William Phillips of the State Department and explained to him that Coast Guard had chased the Anna D rum runner into territorial waters of Nova Scotia. I urged him to try and get cooperation from the Canadians so that we could work together in the future on rum running; also asked him to bring the case of the ANNA D to the attention of the British Ambassador in Washington.

Had Rogers, Oliphant, Viner, Gaston and Coolidge for supper. The important thing that Rogers told us was that Japan notwithstanding the fact that she has depreciated her currency as much or more than any other country has, was able to keep up her employment to a maximum and her cost of living down and her cost of labor down. That they are very much afraid of inflation and that they are hopeful that at the naval conference next year they will not have to build many more new battle ships on account of not wanting to throw their budget further out of balance. I believe Rogers said that about 50% of their budget today is for war purposes. That their silk exports are pretty much shot and they have not much hope of recovering them. That they want to be friendly with the U. S. That they are not interested in silver. That the Japanese and British owned mills in China sell their output in China entirely. That the increased price of silver in China will drive down the price of agricultural products in China in just the same way as tho we had increased the gold content of the dollar in this country. He explains it this way - that by increasing the price of silver it takes more grains of silver to make a dollar and therefore China who is on a silver basis would receive less for their products. He thinks it is very important that we send a very high class person to China to come to a friendly understanding with them on our silver buying program. He said it would be perfectly agreeable to them if we kept the price of silver stable around 50¢. What makes it very difficult for them is to have the price of silver erratic. He said that in India the agricultural classes are very prosperous due to our policy of gold and the increase in the world price of cotton, and India not being on a silver basis the increased price of silver is like the increased price of any other commodity to them and therefore helpful.

Furthermore, if the agricultural prices continue to rise in India, the Indians will put their savings into silver and therefore will be buyers of silver.

After the rest left, I asked Rogers to stay behind and he has agreed to stay on for the coming year on the same basis as he has been heretofore, namely, he will give a couple of classes at Yale and will be in Washington a couple of days a week. He says he thinks it is an advantage not to be too closely identified with the administration. In talking with Viner yesterday he was extremely blue and feels that we are headed towards a crash. Much to my surprise he said that after the first of January he did not expect to return. This is absolutely contrary to what I understood that he had agreed to some weeks ago, but there is no use pressing him at this time. I think that Viner is overworked and therefore over-pessimistic. I think it important that he have a talk with the President at an early date. Viner feels that the President is getting a lot of poor advice. He also feels that people like Perkins, Hopkins and Tugwell are in the saddle and that some of them would like to see a real crash so that this government could become in Viner's words either socialistic or fascist. Viner's talk had a most depressing effect on me and as a result of it I expect to spend much more time on the budget and on the unemployment problem. In fact it seems to me that there are three things that I should devote myself to -

International money situation
Unemployment
Budget

Sept. 12th

Just had a half hour conversation with Rogers and Viner. I explained to them that Hopkins claims he needs \$1,900,000,000 for the present fiscal year. Giving him every dollar we can lay our hands on, the most we can scrape together would be \$1,149,000,000, leaving a shortage of \$751,000,000. I told them that Hopkins said he had no real suggestion for 1935 and 1936. I said, gentlemen at this moment nobody from the President down has a way out. Viner said, we ought to be telling you that instead of your telling it to us. I said, that is unimportant. I am going to ask the two of you to put down on a piece of paper suggestions for the President to put this country back on its feet. They said when do you want it and I said by the 24th of Sept. and they both enthusiastically said they would work together and really give me a new deal for the administration.

Sept. 19th

Crowley came in to see me today. I asked him if he would be willing to go in as Governor of the Federal Reserve with the idea that we would put the examination of banks over there and he said he would do everything that I wanted him to do.

Sept. 20th

I called Harry Hopkins today and said, Harry, the President you nor I or the Director of the Budget know where we are going. In view of that would it be fair to request you that when you see the President that you ask only for a commitment for October. That takes care of you for 30 days. Harry, without a minute's hesitation, answered that it would be o.k. and that he would be delighted to do so.

I talked to Governor Lehman tonight and told him that Mr. Gibbons would be willing to go to the convention in Buffalo. He said that everything was going along nicely and that it wasn't necessary. I told Herbert that I was working on the unemployment problem and he was simply delighted. He said it was the most important thing that should be tackled at the present time. He also complimented me on the Treasury's financing.

Sept. 27th

Steve Early called me up to tell me that Fred H. Prince of Newport and Boston has been spreading a rumor in Wall Street that the President is firing me, Wallace, Tugwell, Perkins and Harry Hopkins, I to be succeeded by Jim Perkins of the National City Bank. I told Steve that the whole thing was very amusing to me and that I would not take any issue about it. Steve was very excited and said he was going to put Pecora on this matter.

Colonel Marvin McIntyre
Poughkeepsie, N. Y.

THIS IS MY SAD STORY AND NOT TOO MUCH TO THE POINT. A LONG TIME AGO WHEN DOUGLAS WAS STILL DIRECTOR OF THE BUDGET WE CONCEIVED THE IDEA THAT THE UNITED STATES HEALTH SERVICE SHOULD BE ALLOCATED A MEASLY SUM OF ONE MILLION DOLLARS OUT OF AN APPROPRIATION OF SOME EIGHT HUNDRED MILLION DOLLARS. CERTAINLY YOU CANNOT ACCUSE THE TREASURY OF BEING PIGGISH ABOUT ITS OWN MONEY. THIS REQUEST HAS CERTAINLY BECOME THE FORGOTTEN HOUND AND HAS BEEN KICKED AROUND FROM THE BUREAU OF THE BUDGET TO THE STATE DEPARTMENT TO THE ATTORNEY GENERAL AND THEN STRANGELY WAS LOST. AS A LAST RESORT I CALLED IN THE COAST GUARD AND ORDERED THEM TO MAKE A SEARCH FROM COAST TO COAST AND YESTERDAY I RECEIVED AN S.O.S. INFORMING ME THAT THE COAST GUARD HAD PICKED UP A MYSTERIOUS BOTTLE WITH A LOST PIECE OF PAPER IN IT ON THE SHORES OF ADMIRAL HOWE'S SUMMER ESTATE. TREASURY INTELLIGENCE SUCH AS IT IS INFORMS ME THAT THE DOCUMENT IS NOW PROCEEDING BY SLOW FREIGHT TO THE SUMMER WHITE HOUSE LOCATED THEY TELL ME AT A PLACE CALLED POUGHKEEPSIE. NOW LISTEN MC, THIS MILLION DOLLARS CAN DO MORE GOOD AND GET QUICKER RESULTS THAN ANY OTHER MILLION DOLLARS I KNOW OF BECAUSE WITH IT THE HEALTH SERVICE CAN GIVE EVERY MEMBER OF THE STOCK EXCHANGE A SHOT IN THE ARM.

IT CAN TAKE THE GOLD OUT OF THE TEETH OF THE BANKERS AND REMOVE THE DECAY. FURTHERMORE WE WILL BE GLAD TO FURNISH FREE VETERINARIAN SERVICE TO THE WHOLE WHITE HOUSE STAFF AS LONG AS THE MILLION DOLLARS LASTS. I FORGOT TO SAY THAT THE PURPOSE OF THIS TELEGRAM IS TO ASK YOU TO PERSONALLY ESCORT THIS MUCH ABUSED PIECE OF PAPER TO HYDE PARK WITH THE HOPE THAT THE PRESIDENT WILL AFFIX HIS SIGNATURE TO THE SAME AND THEREBY RELEASE A MILLION DOLLARS WORTH OF GOOD

HENRY MORGENTHAU JR

Sept. 12, 1934.

TREASURY DEPARTMENT

Washington

FOR RELEASE, AFTERNOON NEWSPAPERS,
Tuesday, September 25, 1934.
9-24-34.

Press Service
No. 3 - 11

74

The phrase "fully and unconditionally guaranteed" as applied to the bonds of both the Federal Farm Mortgage Corporation and Home Owners' Loan Corporation, in the opinion of the Secretary of the Treasury, concurred in by the Attorney General, means that this is a guaranty of payment -- not merely of collection -- with the effect that, should either corporation default, the United States is obligated to make payment of either principal or interest immediately when due without requiring the holders first to proceed against the corporation.

Bonds of the Federal Farm Mortgage Corporation issued under the Act approved January 31, 1934 and bonds of the Home Owners' Loan Corporation issued under the amendment of April 27, 1934 to the Home Owners' Loan Act of 1933, are guaranteed fully and unconditionally both as to interest and principal by the United States.

Secretary Morgenthau today made public the text of a letter, addressed to John H. Fahey, Chairman, Federal Home Loan Bank Board, with the announcement that a letter to the same effect had been sent to W. I. Myers, Governor of the Farm Credit Administration. The letter follows:

"September 10, 1934.

"My dear Mr. Fahey:

"Reference is made to your inquiry respecting the Government guaranty of the bonds of the Home Owners' Loan Corporation issued under the amendment of April 27, 1934 to the Home Owners' Loan Act of 1933.

"Section 4(c) of the Act, as so amended, provides:

'Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed on the face thereof***'.

The bonds issued pursuant thereto recite upon their face, over the signature of the Secretary of the Treasury, that 'This bond is fully and unconditionally guaranteed both as to interest and principal by the United States.'

"The Treasury takes the view that this guaranty is a guaranty of payment -- not merely of collection -- with the effect that should your corporation fail to pay upon demand, when due, the principal of, or interest on, these bonds, the United States would be obligated to make such payments immediately without requiring the respective holders first to proceed against your corporation.

"The Attorney General, in an opinion to the Secretary of the Treasury, dated September 14, 1934, has confirmed the correctness of this view. The opinion reads in part as follows:

"The guaranty being stated by the statute as full and unconditional, there is no occasion to consider whether a condition should be implied. The separate provision that the Secretary of the Treasury shall pay if the corporation is unable to pay upon demand is no part of the guaranty, but merely a provision for carrying it out in the only reasonably conceivable contingency that would require such action.

"Considering the foregoing, it is my opinion that if the corporation should fail, upon demand by a bona fide and accredited holder, to pay either principal or interest when due, the United States would thereupon become obligated to make such payment and its obligation would not be conditioned upon the institution of any proceeding by the bondholder against the corporation."

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

John H. Fahey, Chairman,
Federal Home Loan Bank Board,
Washington, D. C."

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, September 25, 1934.
9-24-34.

Press Service
No. 3 - 13

Secretary of the Treasury Morgenthau announced last night (September 24, 1934) that up to that time approximately \$844,000,000 of the Fourth Liberty Loan bonds called for redemption on October 15, 1934, had been exchanged for the four-year 2-1/2 per cent Treasury notes of Series D-1938 and the 3-1/4 per cent Treasury bonds of 1944-46.

Subscriptions for the Treasury notes of Series D-1938 aggregate \$596,000,000. This is a preliminary total figure for the note issue, on which the subscription books closed at the close of business last night.

Subscriptions for the 3-1/4 per cent Treasury bonds aggregate \$248,000,000, and the subscription books for this offering will remain open until further notice for the exchange of Fourth Liberty Loan bonds called for redemption on October 15.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, October 8, 1934.
10-8-34.

Press Service
No. 3 - 27

Secretary of the Treasury Morgenthau has announced that the subscription books for the current offering of 3-1/4 per cent Treasury bonds of 1944-46, in exchange for Fourth Liberty Loan bonds called for redemption on October 15, 1934, will close at the close of business Thursday, October 11, 1934. Any subscription received after the close of business Thursday will be rejected.

The Secretary stated that approximately \$950,000,000 of the Fourth Liberty Loan bonds called for redemption on October 15, 1934, have been exchanged up to this time, \$354,000,000 for the Treasury bonds of 1944-46 in addition to the \$596,000,000 previously reported as exchanged for the four-year Treasury notes of Series D-1938.

TREASURY DEPARTMENT

Washington

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FOR IMMEDIATE RELEASE,
October 12, 1934.

Press Service

Secretary of the Treasury Morgenthau today announced that approximately \$1,870,000,000 of the outstanding 4-1/4 percent Fourth Liberty Loan bonds of 1933-38 have been called for redemption on April 15, 1935. The bonds included in this third call for partial redemption are those bearing serial numbers ending in the digit 5, 6, or 7 .

One year ago approximately \$6,268,000,000 of the Fourth 4-1/4's were outstanding. On October 12, 1933, about \$1,880,000,000 of the bonds were called for redemption on April 15, 1934 and on April 13, 1934, about \$1,250,000,000 were called for redemption on October 15, 1934. Accordingly one-half the outstanding Fourth Loan was included in the first two calls. Through refunding during the past year about \$2,750,000,000 of the bonds of this Loan have been exchanged for other interest-bearing obligations of the United States, while about \$380,000,000 of the bonds included in the first two calls either have been paid or will be paid in cash.

The Secretary invites the attention of holders of the bonds included in the third call for redemption to the fact that interest on such bonds will cease on April 15, 1935, and states that it is probable that prior to that date, the holders may be offered the privilege of exchanging their called bonds for other interest-bearing obligations of the United States.

The text of the formal notice of call is as follows:

FOURTH LIBERTY LOAN 4-1/4 PERCENT BONDS OF 1933-38

NOTICE OF THIRD CALL FOR PARTIAL REDEMPTION BEFORE MATURITY

To Holders of Fourth Liberty Loan 4-1/4 percent Bonds of 1933-38 and Others Concerned:

Public notice is hereby given:

1. All outstanding Fourth Liberty Loan 4-1/4 percent bonds of 1933-38 (Fourth 4-1/4's) bearing serial numbers the final digit of which is 5, 6, or 7 (such serial numbers in the case of permanent coupon bonds being prefixed by the corresponding distinguishing letter E, F, or G, respectively), are hereby called for redemption on April 15, 1935, on which date interest on such bonds called for redemption will cease.

2. This third call for partial redemption is made pursuant to the provision for redemption contained in the bonds and in Treasury Department Circular No. 121, dated September 28, 1918, under which the bonds were originally issued, the bonds to be redeemed having been determined by lot in the manner prescribed by the Secretary of the Treasury.

3. Outstanding Fourth 4-1/4's bearing serial numbers (and prefix letters) other than those designated are not included in or affected by this third call for partial redemption.

Holders of Fourth 4-1/4's now called for redemption on April 15, 1935, may, in advance of that date, be offered the privilege of exchanging their third-called bonds for other interest-bearing obligations of the United States, in which event public notice will hereafter be given.

Full information regarding the presentation and surrender of Fourth 4-1/4's under this call is given in Department Circular No. 525, dated October 12, 1934.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury

Treasury Department,
Washington, October 12, 1934.

Fourth 4-1/4's bearing serial numbers ending in 1, 2, 8, 9 or 0, have heretofore been called for redemption.

October 10

The President told me that he wanted the Director of the Budget responsible to him and not to the Treasury as McReynolds and Bell felt it ought to be

October 13

OUTGOING HEADING

RADIO WASH DC NR 5 CK 84 GOVT TRSY 13TH 1338 USS CUYAHOGA
GOVT TRSY HON HENRY MORGANTHAU JR., 13 OCT, 1934.

SECRETARY OF THE TREASURY ... TEXT

USS SEQUOIA...

DECEMBER WHEAT CLOSED OFF ONE AND ONE HALF STOP DECEMBER COTTON CLOSED
OFF POINT ELEVEN STOP STOCK MARKET CLOSED OFF FRACTIONALLY WITH THIRTY
INDUSTRIALS OFF POINT SIXTY STOP RAILS OFF POINT FORTY TWO STOP UTILIT-
IES OFF POINT SEVENTEEN STOP GOVERNMENT MARKET CLOSED QUIET UP
FRACTIONALLY STOP FOREIGN EXCHANGE QUIET STOP STERLING CLOSED FOUR POINT
NINETY ONE AND FIVE EIGHTHS STOP FRANCS CLOSED SIX POINT SIXTY FOUR AND
FIVE EIGHTHS ...

LOCHHEAD

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OPERATOR'S RECORD.

OFFICIAL BUSINESS.

INITIALS OF "RELEASING" OFFICER.

U. S. GOVERNMENT PRINTING OFFICE: 1933 2-7429

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TEXT

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ILLINOIS 14 OHIO STATE 15 COLUMBIA 29 VMI 6 DUKE 20 GEORGIATECH
0 GEORGETOWN 9 MANHATTAN 0 SYRACUSE 20 CORNELL 7 TEMPLE 6 INDIA 6
DARTMOUTH 27 MAINE 0 PRINCETON 35 WILLIAM 6 ARMY 48 DRAKE 0 AMHERST 13

UNION 0 PITTSBURGH 20 SOCAL 6 NAVYPLEBS 13 GEORGIA MIL COLLEGE 6
YALE 14 PENNSYLVANIA 6 WASHINGTON 16 OREGON 6 UC OF LA 16 MONTANA 0
STANFORD 20 NORTHWESTERN 0 TEXAS CHRISTIAN 14 TULSA 14 UNIVTEXAS 19
OKLAHOMA 0 VPI 6 WILLIAM AND MARY 0 ARKANSAS 6 BAYLOR 0 WISCONSIN

28 SODAK STATE 7 RICE 9 SOMETH 0 KENTUCKY 7 CLEMSON 0 TULANE 28
FLORIDA 12 NEBRASKA 14 IOWA 15 WESVIR 12 WILLIAM AND LEE 0 NORTHCAR
14 GEORGIA 0 CHICAGO 27 MICHIGAN 0 NOTREDAME 18 PURDUE 7 TENNESSEE
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OPERATOR'S RECORD.

OFFICIAL BUSINESS.

INITIALS OF "RELEASING" OFFICER.

U. S. GOVERNMENT PRINTING OFFICE: 1955 2-7425

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| Chicago | Michigan | Michigan | Michigan | Michigan |
| Columbia | V.M.I. | Columbia | Columbia | Columbia |
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| Duke | Georgia Tech | Duke | Duke | Duke |
| Geo. | N. Carol. | Geo. | Geo. | N. Carolina |
| Harvard | Brown | Harvard | Harvard | Harvard |
| Holy Cross | Yale | Holy Cross | Holy Cross | Holy Cross |
| Ill. | Ohio State | Ill. | Ill. | Ill. |
| Manhattan | Georgetown | Manhattan | Manhattan | Manhattan |
| Navy | Dartmouth | Navy | Navy | Navy |
| Notre Dame | Purdue | Notre Dame | U. Dame | Notre Dame |
| Oregon | Wash. | Wash. | Oregon | Washington |
| Pittsburgh | St. Louis | Pittsburgh | Pittsburgh | Pittsburgh |
| Penn State | Williamson | Penn State | Penn State | Penn State |
| Stanford | Northwestern | Stanford | Stanford | Stanford |
| Tenn. | Mississippi | Tenn. | Tenn. | Tenn. |
| Texas | Utah | Texas | Texas | Texas |
| West Pt. | Deake | West Pt. | West Pt. | West Pt. |
| Navy | Maryland | Navy | Navy | Maryland |
| W. Va. | West Va. | W. Va. | W. Va. | W. Va. |
| V.M.I. | V.P.I. | V.P.I. | V.P.I. | V.P.I. |
| Yale | Penn | Yale | Yale | Yale |

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81

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 Cornell - Syracuse
 Drake - Georgia Tech.
 Georgia - No. Carolina
 Harvard - Brown
 Holy Cross - Catholic
 Illinois - Ohio State
 Manhattan - Georgetown
 Nebraska - Iowa
 Notre Dame - Purdue
 Oregon - Washington
 Pittsburgh - So. Calif.
 Princeton - Williams
 Stanford - Northwestern
 Tenn - Mississippi
 Texas - Uta.
 Army - Drake
 Navy - Maryland
 W. Va. - Wash. Lee
 W. Mass - V. P. I.
 Yale - Penn

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15

13

17

Dictated on Oct. 18th.

On Monday night, October 1st, we had our first meeting at the White House. Mr. Bell's report is attached herewith: I am dictating this on October 18th so naturally my impressions are rather sketchy. The series of three meetings which I will now describe were a result of the conversation that I had with the President at which I suggested that he ought to bring in the Treasury, Ickes and Hopkins to discuss the question of unemployment in relation to the budget and financing. Each meeting made considerable progress and the advantage was that it made everybody from the President down concentrate on this major program. If the meetings did nothing else it brought out all important facts which nobody in this group have thought through - the problem of unemployment in relation to the Treasury. Certainly Ickes and Hopkins had not. I first started to think about this problem when I saw R.D.A. at Hyde Park with Bell and I believe I have it in my diary. I believe if it had not been for these meetings Hopkins would have gotten the President to authorize the following memorandum which was drawn up in Hopkins office and given to Bell to submit to the President. (Memo attached hereto) If the President had signed this memo Hopkins would have plunged into a program of work relief which would have, if my memory serves me, increased our relief expenditures between Sept. and March by another two hundred and fifty million dollars. As it is now, Hopkins is on a month to month basis which I arranged for with him over the telephone. Hopkins got his \$120,000,000 at the end of Sept. for the month of October and I believe he will now ask us for about \$125,000,000 for the month of November. I will check these figures against his Sept. memo and I am quite sure that he is spending way under his earlier estimate.

The meeting which took place Tuesday night, Oct. 16th was in a way the most disappointing meeting at the time because Ickes and Hopkins brought in a report, copy of which is attached hereto, which was so vague that after the President had discussed it for an hour and a half and had pointed out first that their request for 1 Billion Dollars for railroad crossing was impractical; that their request for 1 Billion Dollars for rural electrification I pointed out was impractical and item after item the President vetoed with the exception of 2½ Billion for rural and city housing and certain other transcontinental and radial highways. Whatever the President said Harry and Ickes would yes him and Ickes made one remark which was a classic. He said he did not see that there was any difference as to whether the government spent five billion dollars or private capital spent an equal amount. I thought that Viner would almost pass out when Ickes said this. This discussion in the vaguest terms had been going on for an hour and a half, I getting more and more restless - when the President turned to me and said, do you

Those present at Conference No. 1 -

President Roosevelt

Secretary of the Treasury Morgenthau

Secretary of the Interior Ickes

Mr. Harry L. Hopkins
Administrator, Federal Emergency
Relief Administration

Mr. T. J. Coolidge
Under Secretary of the Treasury

Mr. Herman Oliphant
General Counsel, Treasury Department

Mr. Jacob Viner
Assistant to the Secretary of
the Treasury

Mr. D. W. Bell
Acting Director of the Budget

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CONFIDENTIAL MEMORANDUM OF CONFERENCE
AT WHITE HOUSE, 8:50 P.M., MONDAY
OCTOBER 1, 1954.

The President outlined the following matters for discussion, in which the Treasury is vitally interested from the standpoint of financing.

That all relief should cease on a specified date and that every one out of employment should be given a job. The only direct relief then in existence would be the pauper relief, which would be supplied by local governmental units. He stated that this might cover a program of three years costing \$5,000,000,000 for the first year, \$4,000,000,000 for the second year and \$3,000,000,000 for the third year, or a total of \$12,000,000,000 for the three-year period. The idea is that this would sufficiently prime the pump to the point where industry could relieve the Government of further burden.

Possible projects for this program which were discussed included elimination of slum districts in the larger cities; the building of low-priced houses and apartments; the building of a transcontinental highway from Washington to San Francisco, four to six lanes wide; the construction of over and under passes at railroad crossings and the general improvement of the railroad structure; and the improvement of river and harbor work and water transportation facilities.

In general, the discussion was limited to self-liquidating projects. In connection with some of the projects, such as the transcontinental highway and the elimination of slum districts, it was thought that the Government might get a substantial return of its money. This could be accomplished by renting the houses and apartments built in the slum districts, thus operating them on a commercial basis; and as to the transcontinental highway, it might be repaid either by exacting a toll or by the purchase of a strip of land one mile wide across the entire country and the sale of lots to the public.

The President enumerated a number of ways of providing funds which he said would be advocated in the next Conference. One was a bond issue, one-third in short-term notes and one-third in $2\frac{1}{2}\%$ short-term bonds, both exchangeable at any time for currency, the other third in long term bonds not so exchangeable. Another suggestion was loans to municipalities, etc., without interest, to be covered by the issuance of currency which would be amortized at $2\frac{1}{2}\%$ a year through a pledge of the receipts from the public works involved, the case under consideration being a water system. A third suggestion was for self-liquidating Federal projects such as a transcontinental highway or slum clearance and also involved paying for them in newly issued currency to be amortized and retired out of receipts.

Legal delays in getting title to land was discussed.
The New York system of immediate seizure was mentioned as a way
out of this difficulty.

Those present at Conference No. 2 -

President Roosevelt

Secretary of the Treasury Morgenthau

Secretary of the Interior Ickes

Mr. Harry L. Hopkins
Administrator, Federal Emergency
Relief Administration

Mr. Joseph Kennedy
Chairman, Securities and Exchange
Commission

Mr. T. J. Coolidge
Under Secretary of the Treasury

Mr. Herman Olyphant
General Counsel, Treasury Department

Mr. Jacob Viner
Assistant to the Secretary of
the Treasury

Mr. D. W. Bell
Acting Director of the Budget

CONFERENCE AT THE WHITE HOUSE, 8:30 p. m.,
WEDNESDAY, OCTOBER 10, 1934.

At the last conference on October 1, the President outlined two proposals which Messrs. Hopkins and Ickes were to study and submit a report on at this conference. A copy of that report is attached hereto.

The President read this report and in going over it he questioned the estimate of Mr. Hopkins covering the contribution of States and local communities of \$300,000,000. In finishing Project No. 1, he said, "We will put this program down at a cost of, say, \$2,500,000,000." After finishing the entire report the President suggested that we consider the public work program which would require an annual outlay of \$6,000,000,000. He raised the question as to whether this public work program could be carried out on the basis of wages which would be so unattractive that the people employed thereon would promptly shift to industry if it increased its activity. The Secretary of the Treasury said that he had not seen anything so far in the Administration's program of public works which would indicate that a new program could be effective before the last half of the fiscal year 1936. He wanted to know if under those conditions it would not be necessary to continue the relief program under Mr. Hopkins until the public works were fully effective. The President said that the Public Works program which they now had in mind would be entirely different from the one now in operation - that these public work programs now contemplated would be centralized in certain sections of the country and would be standardized, whereas

the present public work is scattered throughout the country and each project has to be considered separately. He had in mind in stating that they would be centralized and standardized, that the slum clearance, for example, could be drawn up on one standardized program, and that standardization applied to all alike.

Secretary Ickes agreed that the situation now was entirely different from the situation existing at the time they considered the original public work program. The President thought that we could have three million men at work by next fall. The Secretary of the Treasury said that this might be true under plans that the President had in mind, but called attention to the fact that previous programs contemplated the very same thing; however, instead of putting two or three million people to work by certain dates, there were probably less than five hundred thousand.

Mr. Oliphant raised the question as to whether there could not be a variation of the program by gradually expanding the construction of self-liquidating projects until all of the people are at work and relief rolls are abolished. The President said that this would bring up the old question of balancing the budget. Mr. Kennedy said there was serious doubt in his mind as to whether you could lay out an indefinite plan and then finance it, and said that in order to finance an extensive program, he thought you must have a definite plan within fixed limitations as to amount and probably as to period of time over which it is to extend, so that the country will look forward to a balanced budget after that time.

The Secretary of the Treasury stated that he would like to have a program laid down for discussion which would give the worst possible picture -- as, for example, that the Treasury would be called upon to finance relief for say, ten, twelve, or fifteen months to come and then the self-liquidating projects would start with payment of wages, at an average yearly wage for the past two, three, or five years, which would be so low as to provide an incentive for the employee to switch over to industry as soon as it picks up. The President stated that, in other words, what the Secretary was thinking of was essentially Plan No. 3. He inquired as to just what we could do to start that program. Secretary Ickes said that if it is decided to start on Program No. 3, he would like to reopen his engineer offices in the field with a view to accepting applications for self-liquidating projects and have the plans all drawn and a definite program approved by the time Congress enacts the necessary legislation. He said that he could build roads which would include the Transcontinental Highway if found advisable, and could carry on the Central Valley project in California.

The President wanted to know how these self-liquidating projects could be financed. He thought it would be possible to sell no more than approximately one billion dollars of State and local unit bonds for these self-liquidating projects. He did not think that we could sell bonds against slum clearance projects, but that the Government would have to finance these out of its own funds and then take a chance on getting this money back through the operation of the houses and apartment buildings on a commercial basis.

Mr. Hopkins then said that he thought that this gathering should have a picture of the relief situation as it is presented to him in hundreds of telegrams and letters and conferences with his agencies throughout the country. He stated that he has attempted in setting up relief agencies to secure the services of the most able business men in the community. He stated that the relief problem is appalling -- that while they are now spending approximately \$120,000,000 on the average per month, it should be approximately fifty to seventy-five million dollars larger. The people who are handling these problems throughout the country paint a very dismal picture of the situation -- that those on relief rolls have not sufficient to eat and have not sufficient clothes or housing facilities. Many wonder just how long we can carry on such a structure, and if the average man cannot see a job in sight within the next eighteen months, he wonders if we are not headed for serious difficulties.

The President then said that he would like for Mr. Hopkins and Mr. Ickes to resume their study and set up a tentative schedule of a program which would give a definite date when five million people can be put to work. He thought we might start as an objective the employing of five million people, and then gradually decrease it to, say, three million for the second year, one million for the third year, and the fourth year it would disappear.

The Secretary of the Treasury thought that was a very good idea

and that what he would like to have would be a definite program of this character, setting a definite date as to when the relief program will cease and public works will take it over on the basis stated by the President. For example, if Mr. Ickes' engineers can lay down a program which will assume the burden of putting five million people to work on say, November 1, 1935, and decrease so much each year until eliminated, that will give the Secretary of the Treasury a definite program for consideration as to how such a program can be financed. He would like to take that program and give it intensive study for a period of, say, ten days, and then come back to the conference with a definite answer as to whether or not it can be financed by the Treasury.

The conference adjourned at 10:30 p. m. The date set for a further meeting was 8:30 p. m. on Tuesday, October 16, at which time Mr. Ickes and Mr. Hopkins will make a further report.

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Those present at this conference were:

President Roosevelt
Secretary of the Treasury Morgenthau
Secretary of the Interior Ickes
Mr. Harry L. Hopkins, Administrator, Federal
Emergency Relief Administration
Mr. Joseph Kennedy, Chairman, Securities and Exchange
Commission,
Mr. T. J. Coolidge, Under Secretary of the Treasury
Mr. Herman Oliphant, General Counsel,
Treasury Department
Mr. Jacob Viner, Assistant to the Secretary
of the Treasury
Mr. D. W. Bell, Acting Director of the Budget

October 6, 1934.

MEMORANDUM

TO: The President

A National Work and Relief Program
from July 1, 1935, to July 1, 1936.

A Work and Relief Program for the United States may be developed within one of several specific frameworks.

Relief without new Public Works

1. We may continue our present set up, expanding relief expenditures and improving the quality of work done on work relief programs as required, and maintaining the C. C. C. camps. Such a program will cost:

| | |
|--|------------------------|
| Relief | \$2,400,000,000 |
| Less obtainable State and local funds | <u>300,000,000</u> |
| Leaving total required Federal funds | \$2,100,000,000 |
| C. C. C. camps | <u>330,000,000</u> |
| Total: | <u>\$2,430,000,000</u> |

This program anticipates a minimum of 2,000,000 persons on work relief and a maximum of 4,000,000.

If the C. C. C. camps were discontinued and the families of the boys put on relief, that expenditure would be eliminated and relief expenditures would be increased only by \$90,000,000 which would make the total outlay of Federal Funds for Relief \$2,190,000,000

All funds indicated above would be direct grants which would not be repayable and would all be met from present and future taxation. However, it must be remembered that much of the construction done with work relief labor is work that would otherwise sometime be done out of tax funds, and, while the funds are not amortized and repaid, the tax payers are saving the expenditure of perhaps one-fourth of these funds.

One billion dollars added to public works

2. Assumption may be made that relief will be continued to the full limits necessary, but that \$1,000,000,000 will be expended on Public Works activities throughout the country over and above present Public Works contracts and commitments. It is also assumed that this will make a reduction

3.

in necessary relief expenditures of Federal funds of \$250,000,000. In this case the estimated minimum expenditures, taking into account possible local funds for relief, are the following:

| | |
|-------------------------------------|-----------------|
| Relief expenditures | \$1,850,000,000 |
| Public Works expenditures | 1,000,000,000 |
| C. C. C. camps | 330,000,000 |
| | <hr/> |
| Total: | \$3,180,000,000 |

Of this it may be assumed that \$400,000,000 would be on loans which would be repayable, thus making the total outright Federal Grants \$2,780,000,000

3. Maximum dependence on relief through Public Works

If Federal funds are made available only for the relief of unemployables and a broad work program is set up that will put enough of the employables at work to meet the situation, it would appear that we should have to make the following expenditures:

| | |
|------------------------|-----------------|
| Relief | \$ 350,000,000 |
| Public Works | 6,000,000,000 |
| | <hr/> |
| Total: | \$6,350,000,000 |

This program assumes reaching a peak direct employment of 6,000,000 men. There exists available work to be done which can repay its costs over a proper period of amortization if full local and State responsibility is invoked to bring such repayment. Probably \$500,000,000 would have to be put out on direct grants or would have to be used for Federal Projects, so that they would have to be taxed for; although much of this expenditure will save other and later tax fund expenditures. This, with the relief expenditure, would make a total of expenditures to be met out of present and future taxation of \$850,000,000.

Several considerations are necessary to the success of such a program:

A. It would need to be set up on a continuing basis so that it looks forward to three to five years of development and activity. It is probable that by the end of 18 months the rate of expenditures can be reduced.

B. Prices of materials will have to be reduced. Manufacturers can do this if they are looking forward to a three to five year program.

C. Wage rates must be determined in consideration of an annual wage. If set up on a weekly or monthly rather than on a daily or hourly basis, this can be done in such a way that proper annual earnings may result without maintaining distortions in the wage structure.

(Signed) HARRY L. HOPKINS

HAROLD L. ICKES

Those present at Conference No. 3 -

President Roosevelt

Secretary of the Treasury Morgenthau

Secretary of the Interior Ickes

Mr. Harry L. Hopkins
Administrator, Federal Emergency
Relief Administration

Mr. Joseph Kennedy
Chairman, Securities and Exchange
Commission

Mr. T. J. Coolidge
Under Secretary of the Treasury

Mr. Herman Oliphant
General Counsel, Treasury Department

Mr. Jacob Viner
Assistant to the Secretary of
the Treasury

Mr. D. W. Bell
Acting Director of the Budget

CONFIDENTIAL MEMORANDUM OF CONFERENCE AT THE WHITE
HOUSE, 8:30 p. m., ON TUESDAY, OCTOBER 16,
1934.

The President started the conference by referring to his recent conversation with Russell Leffingwell, formerly Assistant Secretary of the Treasury. He stated that he had asked Mr. Leffingwell what he would think, from the standpoint of finances, of a scheme (1) to provide relief on a moderate scale and in addition public works on a large scale; and (2) to provide relief on a large scale with public works on a moderate scale. Mr. Leffingwell apparently did not give any definite answers at the time of his conference, but agreed that when he went back to New York he would think the matter over and give the President a definite reply in writing. The President read Mr. Leffingwell's letter, which was a repetition of the many statements heard before to the effect that continued large Government expenditures will seriously affect the country and retard improvement and make it impossible to proceed with the capital markets.

The President then told about his conference with Jackson Reynolds, putting practically the same questions which he had put to Mr. Leffingwell. Mr. Reynolds' reply was that the sums could be financed and would be financed if either proposal is to be the Government's program. He stated emphatically that it was the duty of the Federal Government to take care of the unemployed even if we know that we are headed straight for national bankruptcy. This is a strong statement when you consider the character of this man.

Mr. Kennedy said that he could not agree with Mr. Leffingwell's attitude in the matter; that it was his opinion that as soon as the Securities Commission's regulations are out the capital market would immediately be in a position to move forward. He hoped that by the end of this week they would approve the largest single piece of financing since 1929, namely \$25,000,000 of Republic Iron and Steel.

The President then said he would like to discuss for a moment some of the construction problems that had been running through his mind for the past week, one of which was the electrification and installation of modern plumbing in low-cost dwelling houses. He called attention to the fact that a project of some kind had been started by local authorities in West Virginia. They had electrified homes and put in modern plumbing and there is no doubt in the minds of the people in charge that the money will come back into the local Treasury. He said that the Tennessee Valley Authority had done a good job in this connection by taking over the power plant in Tupelo, Mississippi. They have cut the rate by one-half and after six months' operation the consumption has multiplied by two and the gross income is no less than it was before. He thought that this was a field for the Government representatives to give a great deal of consideration to for the purpose of ascertaining whether or not the Government could finance the installation of power lines and electrical apparatus in homes throughout the rural sections where they have not already been installed by private concerns.

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Mr. Hopkins then said that he had on Monday visited with Mr. Henry Ford in Detroit. Mr. Ford apparently was quite in sympathy with the program to decentralize industry in the United States and he said he was prepared to build six plants immediately in any place in the United States in connection with this program. He also said that he could build annually 6,000,000 cars and that he hoped before long that he would be able to put a car on the market at a price no one has ever dreamed of. He also said that he looked forward to the day when he could not only manufacture 6,000,000 cars but could sell 6,000,000 cars and could sell them cheaper than any other manufacturer. Mr. Ford said that he could tomorrow put his plant on a six-hour basis.

The President then read the report submitted by Mr. Hopkins and Mr. Ickes, a copy of which is attached. In going over the chart the President asked the question as to whether the figures under No. 1 referred to city housing or if it included rural housing also. Mr. Hopkins replied that it was only city housing, whereupon the President stated that the figure was too high and suggested that it be changed to show one billion for slum clearance in cities and one billion for rural housing. He thought that we might well spend this amount of money on the two projects suggested, but did not believe that we could spend two and one-half billion dollars in any short space of time in cities alone. He also thought that the city housing should be confined strictly to slum clearance.

Item 2 would depend entirely upon what is eventually done with the railroads. The President doubted if there are more than two lines in the

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country today that can borrow money with any hope of its being repaid without rearrangement of its capital structure. He thought, therefore, that the railroad item should be eliminated from any consideration at this time. Mr. Kennedy suggested that at least \$100,000,000 might be spent on railroad cars alone. He called attention to the fact that the railroads had now on hand a large number of cars of 40,000 to 60,000 ton capacity. He suggested new cars of double or triple this capacity so that one car would do the work of three. The President immediately raised the question as to what would happen to the indebtedness already existing on the old equipment. Mr. Kennedy suggested that this would merely mean that the two would be combined, which would mean a longer amortization term for the combined indebtedness.

As to item 3, it was agreed that extension of power lines might be essential but it was thought that this could not be used in the next nine months to employ any great number of people. It was agreed that this item should be eliminated.

On item 4 there was obviously a mistake in the figures for the cost of \$600,000 per mile for express highways. It was apparently intended for \$60,000 per mile, in which case the total cost should be \$600,000,000 instead of \$6,000,000,000. There was a general discussion of this matter. It is very questionable as to whether the Government could hope to secure repayment of the money invested in this undertaking. The President suggested that for this item we put down \$500,000,000 for the first year.

As to item 5 for grade crossings, doubt was also expressed about

its repayment. It is questionable whether railroads could afford to repay the amount invested and certainly the local communities would not want to do it. It was generally agreed that this item was of the same character as item 2 and should be eliminated.

The other two items, namely, non-Federal projects and water resources, were not discussed to any great extent.

The discussion then shifted to the transcontinental highway. The question was raised as to what sections would benefit the most by an immediate expenditure of moneys for this purpose. The President said that the funds certainly should be spent in communities having the greatest unemployment problem. He had been thinking about this transcontinental highway and wondering if we could not plan it so that eventually we would have four cross-country highways and four cross-roads running north and south, plus any branches that may be necessary to go out into the various States. The projects should be centralized so that they would draw labor from all of the surrounding territory. For instance, a project should be started, say, at some central point in the New England section and then draw labor from the whole of the New England territory. It would not be necessary to build all of these highways at once, but the project could be started where the unemployment is the greatest and gradually extended into the sections least affected by the depression. It will be his hope, after the highways are completed, to build houses along such highways and sell them as homes to the public with a fairly large plot of ground, say as much as twenty acres.

The President asked the Secretary of the Treasury if he was satisfied

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with the information which had thus far been developed. The Secretary said that he would like to speak quite frankly on the subject. He wanted the President to know that he felt absolutely cold to the whole proposition. He had seen nothing in the program submitted tonight or any other night on which we could go forward with any definite plans whatever. He was hoping that he could get reports from Government engineers who are qualified to speak on it and get their views as to just when construction could be expected to start and what the cost would be for these projects under discussion. He called attention to the fact that we have various organizations well equipped with engineering staffs. He referred to the Army and the Procurement Division of the Treasury. He thought that the matters discussed should have the immediate consideration of the Good Roads organization in the Department of Agriculture, the Home Owners' Loan Corporation, the Farm Credit Administration, and Federal Housing. The President added the National Resources Board. The Secretary said that he was quite certain that today the Federal Government was entering into contracts to carry on public works with no attention whatever being given to the question of taking people off the relief rolls to carry on such Federal work. He thought this was important and brought home to him his previous suggestions that all of this work should be concentrated in one place so that there could be centralized authority to deal with public works and to lay down definite policies with respect to relieving unemployment and reducing relief rolls.

The President then directed Mr. Ickes and Mr. Hopkins to get a corps of engineers and submit to them these projects; have them survey the situation with respect to legislation needed both in Congress and in the States

so that there would be no delay in the acquisition of property, etc., from the time we are ready to start; and submit time schedules as to just what can be done. This report is to be available in two weeks. It was understood that this would be a preliminary survey and that we would have a discussion on it at that time. A definite survey could be made during the month of November. We would have a meeting shortly after the President comes back from Warm Springs on December 6 and have a definite report for Congress, including a definitely coordinated plan. The Government should be ready to proceed by the first of February and the whole program should be in complete operation next fall. In this connection the President told Mr. Hopkins that he thought he should give serious consideration to the effect winter weather would have on the projects we have had under discussion, because in certain sections of the country unemployment would increase in spite of the large Federal projects under construction because of the severe weather.

MEMORANDUM to the President:

October 16, 1934.

A National Work Program.

Work which will actually reemploy three to six million men and will produce useful things that in themselves will earn funds and result in increased tax funds so that their cost can be largely repaid appears necessary. Because the heavy industries are at a lower point than other industries in the United States, construction activities that will draw on them are needed.

The program of work should be undertaken in fields where people can be put to work quickly, where some planning exists, where there is real social need, and where the returns will be such that the bonds outstanding against them can be retired at regular intervals over a proper period of amortization.

Possible Work to be Done

HOUSING stands out as a great present need of the country. This is particularly true of low cost housing which has to be built under public ownership so that it can be developed without the heavy cost of private financing and the excess profits of speculative builders. This type of housing does not compete with private building and is in part the only type of housing for which there is a large demand.

RAILROADS need a great deal of track improvement, chiefly ballast, with considerable number of new culverts and ties, some doubling of

track, and improvement of country switches. This is very largely a hand labor job, using a greater proportion of direct labor than any other type of work and it is estimated that about half the mileage of the railroads of the country require some work.

RURAL ELECTRIFICATION either in extension of the present lines or set up for new development on an area basis. With aggressive pressure we might hope to vastly increase the rural use of all electric power, at the same time reducing the cost to consumers.

EXPRESS HIGHWAYS which separate high and low speed and cross traffic have been discussed in the past and some have been planned and a few actually built. There is an established advantage in having such highways, and in the area east of the Mississippi and north of the Ohio about 3,000 miles are needed of which perhaps a third is somewhat under plan. Tolls can be charged on such highways for a time, which adds to their repayment possibilities. If broad right-of-ways are purchased they will have a re-sale value at considerable increment, perhaps enough over a period to pay the cost of the highway.

GRADE CROSSINGS are an important source of accident risk but more particularly of traffic complications and delay. There are 235,000 places where roads and streets cross railroads, and of these about 20,000 need to be separated. In addition to grade separations there are a large number of traffic by-passes, and other traffic control devices that need building. Most of these have plans somewhat advanced.

WATER RESOURCES offer a field in which a good many projects are definitely under plan, both in water conservation and in drainage. Most of the water conservation projects are in areas where population is not dense and there consequently is not the number of people needing jobs that there is in the industrial sections of the country, but some work should be done in this field. This would include work on flood control, drainage, and the public aspects of irrigation. Land and water would be made available for resettlement areas. Repayment of expenditures would be made over a long period through assessment on the land reclaimed or benefited.

Some of the pertinent facts concerning these fields or work are shown in the attached chart. The amount of direct and indirect employment that probably should be developed within a six or eight months period may be summed up as follows as to number of people for a two hundred day period:

| <u>Fields of Activity</u> | <u>Direct Labor</u> | <u>Indirect Labor</u> |
|----------------------------|---------------------|-----------------------|
| Housing..... | 1,250,000 | 625,000 |
| Railroads..... | 975,000 | 300,000 |
| Power Line Extensions..... | 200,000 | 80,000 |
| Express Highways..... | 400,000 | 400,000 |
| Grade Crossings..... | 400,000 | 400,000 |
| Non-Federal..... | 500,000 | 400,000 |
| Water Resources..... | 100,000 | 80,000 |
| Total..... | 3,825,000 | 2,265,000 |

Total direct and indirect 6,090,000 men for 200 days.

Agencies to Handle the Program

A work program of this sort should be promoted from a central place in Washington -- a single cabinet department or emergency administration --

and should reach out to a maximum decentralization to gain local participation and support. Central controls, engineering and financial standards should be set up. Locally it is essential that agencies as close to the ground where the work is to be done be found and pushed into action.

Housing can best be handled by Public Housing Corporations set up in each city or county wishing to carry forward the program. A simple pattern of corporate organization should be established. The Railroads themselves would be the obvious agency for any work to be done on their trackage and facilities. Power Lines can be built by Farmers' Associations; many are now being built by School Boards, which serve as a very good small district but does not give the advantage of planning over several counties that joint agreement of County Commissioners would give if lines are out in an area rather than a tie-on basis. Express Highways and Grade Crossings can best be handled through the State highway departments under the supervision and direction of the Federal Highway department of the several States, since most of this work would be on State highways or on streets tributary to such highways. In almost all States the highway department has a method of cooperative work on streets and on local roads that are not actually part of the highway system. All of these agencies would be tied into the central one in Washington. Work on water resources would be handled by reclamation and drainage districts under existing statutes.

Repayment of Money Advanced

It is desirable that it be clearly understood and intended that practically all of the money advanced on such a program shall be repaid.

In the attached chart the sources of such repayments, the time they will take (which indicates the period of amortization) and the percentage that can be expected is indicated. In most cases the construction will, in itself, earn income, such as rentals from houses and bonding charges in improved terminal facilities. The period of amortization should be slightly less than the prospective life of the construction. In the case of express highways it is suggested that tolls be charged as one of the sources of repayment. Since tolls are something of a nuisance and since the greatest competitive value of the express highways is soon after their building, it is suggested that the tolls be on a ten year period and at such a rate as to establish a sinking fund that can retire the bonds over a longer period, and that over the whole period some diversion of gasoline taxes be made. Other than that the sources of repayment are direct and simple.

Much work now done with work relief labor would be done under this program. A very rough estimate of the amount of work relief projects that are actually self-liquidating in that they offer reduced public expenditures or increased tax sources, would indicate that at any given time there are projects running over 100 millions of dollars total value in process that fall in this classification. These range from garbage incinerator at Charleston to Signal Corps construction in Alaska.

Time Schedule

It probably would take two months to get men actually at work on the ground on this kind of a program in any large number, although the railroad job -- if the railroads, the Federal Coordinator, the Interstate

Commerce Commission, and everybody concerned were agreeable to it -- could probably be started up in two weeks. The assemblage of lots for housing work slows up the time schedule here, but if the program is planned a few months in advance and pressure is put upon the program of organizing local Public Housing Corporations and they have reasonable assurance that the funds will be made available promptly and adequately, three or four months of preliminary work should make a great many housing projects available. Beginning with an initial employment of 50,000 men within six weeks, this program could be developed and expanded to reach a peak employment of 6,000,000 men nine months or a year after beginning. If planning is begun in November 1934 peak employment could be reached by November and December 1935. Because of the great amount of work open to be done in each field the program could be extended as needed. Because of the small units and flexibility of most of the work it could be closed down quickly when not needed.

The objectives can be reached most easily if the program is set up on a continuing basis looking forward to three to five years of development and activity with a tapering off after two years; if material manufacturers make maximum reductions of prices in view of the long continuance of the program; and if wage rates are set on the basis of an annual rate rather than a daily or hourly casual basis.

Relief Employment

A definite requirement should be made and the program set up to provide for the specific transfer of employable workers from the relief

rolls to these Public Works jobs. If this were done relief for the unemployed could be discontinued by November 1935.

There is attached a chart indicative of the total possibilities of work. There is also attached a chart presenting the classes and kinds of projects which are ready for presentation to the Public Works Administration.

Harry L. Hopkins.

Harold L. Ickes.

NATIONAL WORK PROGRAM

| Fields Needing Work Done | a Extent of possible work | b Cost per Unit | c Estimate cost of total possible work | d Estimate Cost of work now planned or quickly so | e Direct Labor employed % of Man Cost (200 days) | f Indirect Labor employed % of Man Cost (200 days) | g Agency that could best handle locally | h Repayment Method % |
|---------------------------------|---|--------------------|---|--|---|---|--|--|
| 1 HOUSING | 1,500,000 Units deficiency | \$ 6,000 per Unit | \$ 9 billion | \$2.5 billion | 50% 1,250,000 | 25% 625,000 | Local Public housing Corp. | Rental over 30-40 yrs. 10% |
| 2 RAILROADS (track improvement) | 120,000 miles need ballast, track repair, etc. | \$ 20,000 per Mile | \$ 2.4 billion | \$1.5 billion | 65% 975,000 | 20% 300,000 | Present railroad corporations | From revenues and carrying for U.S. over 20 years. 100% |
| 3 POWER LINE EXTENSIONS | 300,000 miles extension and new development | \$750 per Mile | \$ 2.25 billion | \$.4 billion | 50% 200,000 | 20% 80,000 | School boards, County Commissions, Farmers' Associations | From revenues over 25 years 100% |
| 4 EXPRESS HIGHWAYS | 10,000 miles seasonally useful at present time | \$600,000 per Mile | \$ 6 Billion | \$1 Billion | 40% 400,000 | 40% 400,000 | State and County Highway Departments | Toll for 10 yrs + increment of right-of-way State Highway tax & fraction gas tax 20 yrs 100% |
| 5 BRAKE CROSSINGS | Of 235,000 crossings 18,000 separations needed now | \$55,000 each | \$13 billion | \$ 1 billion | 40% 400,000 | 40% 400,000 | State and County Highway Departments | Diversion of part of gas tax and taxes on property benefited 40 yrs. 80% |
| 6 NON FEDERAL PROJECTS | Sewage Plants, Public Buildings, City Streets, etc. | Variable | \$ 2 billion | \$ 2 billion | 60% 500,000 | 400,000 | | |
| 7 WATER RESOURCES | Largest number of small dams and extensions of drainage; and perhaps twenty large dams in country | Variable | \$ 1 Billion | \$.2 billion | 50% 100,000 | 30% 60,000 | Reclamation and Property drainage districts | Property assessments over 40 yrs. 90% |

\$8.6 billion 2,825,000 2,265,000

Direct and Indirect 5,090,000

think you could finance this. I then said this program leaves me absolutely cold. The President said you sound like Leffingwell and I said, I wish I had half his brains. The President in a sarcastic manner said, have you any better suggestion and I said, I know whenever you offer any criticism you always subject yourself to this kind of an attack. He said what is your suggestion and I said I think Hopkins and Ickes should bring in a report as to a number of self liquidating projects which will be backed up by engineering reports which are so good that nobody can tear them apart. Furthermore, I said, I consider it equally important that we have one agency which does the spending of this money and I think that this set-up is just as important as the first proposition, namely, the projects. I was under the impression that the President did not like what I said. Hopkins remarked that he thought I was unfair and how could I expect him to come in with finished projects. The discussion went along for about another half an hour and much to my surprise the President said - to sum up - and repeated directly word for word what I had said, namely, that we would meet in two weeks when Ickes and Hopkins should bring in complete engineering reports showing what self-liquidating projects could be undertaken and that in December we would take up the question of what kind of an organization should run these projects. I then stood up on my feet and said, I think we ought to go home. Before leaving, Joe Kennedy said to the surprise of all of us, since listening to this discussion for two evenings, I have changed my mind and I am now in favor of the Public Works Program.

October 17th, Wednesday, I had lunch with Hopkins and went over the whole situation with him again. I said, Harry, why don't you start and demonstrate that you can use the unemployed on self-liquidating projects. He smiled and said, I started that last night and from now on we will try to convert our work entirely into self-liquidating projects to demonstrate what our organization can do. This of course pleased me tremendously. My executives keep telling me how very foolish I am to go along on the development of this program with Ickes as I will find that our organization will be out of a job. I took Hopkins over to Procurement Division and introduced him to Peoples and Barton and told Hopkins to use these two men for the next two weeks to help develop the program for the next meeting of the President.

This morning I had the most thrilling meeting with the President at his bedside which lasted for about 50 minutes. He said I tried my best to get your eye last Tuesday night to get you to lay off suggesting that we have one organization do public works from now on. He said I

absolutely agree with you but I did not want Ickes and Hopkins to get fighting over this at this time. He said I think that the road money should go to agriculture; that army engineers should do their share and I said that we should have one man to keep track of all of it and that man should be Hopkins and he said, I agree with you with the possible exception that we should leave with Ickes the financing of municipalities. I said, I even question that. We might even turn that over to R.F.C.. F.D.R. said I think I will try to get from the next Congress two more members for the Cabinet and then have a general unscrabbling and re-scrabbling of a lot of the functions. I think we ought to have a post which would look after all of the work that N.R.A. does for business and a lot of the similar work done now in the Dept. of Commerce. Furthermore, he said, the whole question of tree planting, public lands, national forest has to all be studied and he said, you know as much about that as I do. He left me with the distinct feeling of encouragement and that he and I were seeing absolutely eye to eye on this program.

I then told him that I knew something of the troubles between Richberg and President Hutchins of Chicago. He said I am having all kinds of trouble but I told Richberg that I made an offer and agreement with Hutchins and I am going to go thru with it 100%.

I spoke to him about paying Bell the salary of the Director of the Budget and I said I could increase his pay by making him Special Ass't to me. The President said he thought we might be criticized and I should find out if he could not get out an Executive Order making the position of the Director of the Budget civil service, and in that way Bell would not lose his civil service standing. I said how about the future if you want to put somebody else in Bell's place who had no civil service standing. He said, that would be easy - I would simply rescind my order.

INDEX OF EVENTS
IN THE
CROWLEY - O'CONNOR MATTER

October 15, 1934

Letter from Crowley to Secretary, submitting record of activities during past few years.

December 31, 1934

Crowley's affidavit that he does not own or control any stock in any State or National Bank.

January 2, 1935

Meeting in Secretary's office. O'Connor and Crowley both present. Purpose of meeting to give Crowley opportunity to hear O'Connor's charges.

January 2

HM, Jr. called Senator Vandenburg and told him he would go into the case ; that either O'Connor will have to substantiate his charges or withdraw them.

January 4

Letter from Mr. Farley inclosing letter from Mr. Coffey

January 7

Coolidge's report of investigation of Crowley.

January 7

Statement prepared by Crowley's lawyers.

Undated -- (Early in January)

Oliphant's reaction to Crowley's statement.

January 15

Summary and Analysis of memorandum dated January 15

January 16

Oliphant's (?) memorandum on Crowley loans; facts suggest possibility of violations of penal provisions of State of Wisconsin.

January 14

Meeting in Secretary's office. O'C made charge that Crowley had employed a man who takes graft.

March 12

O'Connor meeting with Secretary -- O'Connor will not press investigation since Crowley had promised to resign.

March 22

HM, Jr telephoned to O'Connor asking for report on Crowley.

March 22

Letter from HM, Jr. confirming telephone conversation.

September 13, 1935

Crowley wired Secretary from Chicago that he will try to defer any drastic move until HM, Jr. returns from abroad.

March 25, 1936

Letter from James Coffey to Secretary Morgenthau that a Chicago paper will print expose of Crowley's activities.

May 1, 1936

Senator Wheeler's letter to the Secretary (replied to May 5.)

May 5

Secretary's letter to O'Connor that matter should be disposed of without further delay.

May 5

Letter from Crowley inclosing memorandum to Coolidge dated May 4.

May 5

HM, Jr. called McIntyre and McIntyre is worried.

May 6

McIntyre's (?) memorandum to Secretary that certain individuals who had dealings in the banking affairs of Mr. Crowley are on payroll of FDIC.

May 5, 1938

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Meeting in Secretary's office of O'Connor and McReynolds. President will have conference tomorrow.

May 6

HM, Jr's letter to O'Connor that O'C is in error when he says he gave HM, Jr acknowledgment of letter dated March 22.

May 12

Jesse Jones' request that Treasury not make a written report.

May 14

Meeting at White House with McIntyre. HM, Jr recommended no action until Crowley had opportunity to prepare reply to Brown report.

May 18

O'Connor's letter to Secretary that Folger had examined report made by Brown and Crowley was an official of the State Bank during period covered by report but not officially connected with a State bank; therefore Comptroller's office not required to initiate action.

May 19

Meeting at White House with McIntyre. President consulted. Decision later.

May 21

Meeting in Secretary's office to iron out difficulties over dispute as to whether Statute of Limitations has expired.

May 22

HM, Jr's conversation with the President, as related to Oliphant and McReynolds. Decision to let Crowley have copy of report to present defense.

July 2

Crowley and McReynolds met with Secretary. Secretary told Crowley his services entirely satisfactory but in view of possibility of criticism against President for retaining him, HM, Jr's opinion Crowley should resign.

August 17, 1936

Anonymous letter from New York, N.Y. Repeating rumors he had heard that Crowley was indebted to banks in Wisc. and had used his position to borrow personally in Washington.

December 11, 1936

Telephone conversation between Senator Wheeler and HM, Jr. Inquiring what was going to happen to Crowley; HM, Jr. replied he had washed his hands of the affair and offered to have a conference with Wheeler to explain all that had happened.

March 11, 1937

Davis of O'Connor's office telephone conversation with HM, Jr in which Davis asked HM, Jr to see Mr. Diggs of FDIC



OFFICE OF THE CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON

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October 15, 1934.

Dear Secretary:

Upon leaving your office this noon I phoned my brothers and attorney regarding the matters you and I discussed. I have just received word from them that arrangements would be made to take care of their obligations without my endorsement, and that even their indebtedness will be taken out of the bank. When these plans are carried out, I will not have any financial obligations, bond issues, mortgages, or otherwise, in any bank or similar institution, nor will I own any stock in banks, state or national. I will be happy, of course, to obtain additional confirmation of the above, if you so desire.

Respectfully yours,

Honorable Henry J. Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Oct. 11, 34
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For your record, I am pleased to submit to you a brief history of my activities during the past few years.

For a great many years I have been associated in many business activities in Wisconsin largely associated with my four brothers. I have never been associated with any promotion development nor any corporation which offered stock to the public. In the early part of 1928 two of our banks became seriously involved, both of which were institutions that I was not in any way associated with, my connections always being with other institutions and I had no financial interest in these. I was drafted to try and save these institutions and one of my first acts was to put in \$600,000 with some of my friends in one of these banks and sold it to another banking corporation with the understanding that I was to remain with them for two years while they were working out plans of a merger. This I did. I completed this contract and withdrew from the banking field at that time which was in 1932, and I have never been associated actively with banking since.

Myself and brothers had very large interests in paper, lumber, oil and other interests, and two of my brothers were in the market quite heavily and had some heavy current obligations. In order to avoid any unnecessary loss to them I offered to endorse their obligations, and it was arranged for a long term extension and their notes are not due for several years yet. I did this on account of our family pride and my desire to see that they were given an opportunity to meet these obligations in a perfectly normal way. My attorney and the president of the bank both advised that it was not necessary to endorse this paper, but I told them I much preferred to do that and when I endorsed these notes it was with the understanding that I was not to put up any of my personal

dis with
particular
guarantee

collateral.

Personally, I was never in the market, have always been extremely conservative and none of my connections in the past or at present can be in any way embarrassing to me. Neither my family nor myself own any bank stock or have any connection with banks either directly or indirectly. I have no bonded indebtedness, mortgage indebtedness nor current indebtedness. The only obligation I have is this indirect obligation.

direct on
his part

Robert C. Cresswell

at FRR
meeting

October 19th

John Sinclair came in and told me he had been approached by a group who wanted to know whether the Treasury would be interested in buying twenty million ounces of silver to be delivered over the next nine months. I said, whom do you represent and he said, I think it is Mexico. I told him that I was not interested in dealing with any government thru a third party.

Kiplinger came in to see me today and said, I am fed up on Mrs. Roosevelt. I have been bursting to say something. What I want to know is, is she first lady of the land or is she Mrs. Roosevelt. A lot of people around town are grumbling. She is constantly throwing monkey-wrenches into the government departments and they are all afraid to say something because she is the wife of the President. I begged him to go slowly and reconsider.

October 24th

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Mr. Morgenthau called for George Harrison and Jackson E. Reynolds to come immediately to Mr. Morgenthau's office to go over speech which Reynolds was to give that night before the A.B.A. After the introductions the Secretary said to Mr. Reynolds that it was his habit to speak plainly and bluntly and he wanted to speak in that fashion about this speech Mr. Reynolds was to deliver. He said he and others had read it and all of those who had read it were shocked by it. Mr. Reynolds asked what it was to which exception was taken. The Secretary pointed to the so-called parable at the beginning of the speech containing Hannibal's fatherly advice to Scipio, the younger. He also called attention to the reference to the President as a former law pupil of Mr. Reynolds and the statement that he did not always know the answers. The Secretary said in effect that the patronizing tone of both these passages was almost an insult to the President and would be certain to be resented widely. "If you were to deliver this speech as it is written, to a general audience, I wouldn't want to be answerable for your safety."

The Secretary said Reynolds expressed surprise at this attitude. He said that as a lawyer he liked to develop the reasons for antagonism between two parties, as a preliminary to disposing of the issues and that was what he tried to do in this case. He had no intention to do anything but promote harmony, but if there was objection to these passages he would be glad to cut them out. "For that matter" he said "if you would tell me that I could get on a train and go home and just forget this speech, I would be very happy to do it. I am not making the speech because I want to do it -- the President invited me to make it."

The Secretary then said the general effect of the speech was to picture the bankers as a group of equal importance to the government of the United States and if the speech remained of that tenor, the President would have no option but to deliver a fighting answer, "and I can tell you" the Secretary said in substance "that that wouldn't do the bankers any good."

Mr. Reynolds then said all right, he would be glad to make any changes that were suggested and asked for suggestions as to the wording. After a very brief discussion of possible phrases to be used, the Secretary told Mr. Reynolds that he had outlined the objections and he would prefer that Mr. Reynolds should do as he saw fit about making changes, knowing how we felt about the speech as it stood. Mr. Reynolds then agreed to do this. Said he would cut out the parable and the story about the President's school days, although he had thought the President would be pleased at this latter incident and in fact MacIntyre had given him to understand

that the President would be pleased by it.

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Just as he was leaving he said that he thought that this was making a lot of stir about nothing and it was really all nonsense, but that he was a good sport and that he would do as requested. Having got this shot off his chest, he left in an apparently amiable mood.

Proposed speech attached - also speech that Reynolds finally gave.

Mr. President, Mr. Chairman, Ladies and Gentlemen:

My remarks will be brief, simple and earnest.

Because of events with which we are all familiar, there exists today, I regret to confess, evidence of misunderstanding between many of our country's bankers and those whose duty and responsibility it is to administer the affairs of the country. I am profoundly convinced that this contributes to the ills from which we are suffering and I believe its removal will greatly promote the welfare of our country. I should like to address a few brief observations to the Bankers tonight in the form of questions to which I ask no vocal response, but only that you shall answer them to your own secret selves. The answer to the first will be unanimous, but the answers to the second and third will be various. The first question is: Is it avoidable that either through private philanthropy or the appropriation of public funds the destitute, unfortunate and unemployed must be cared for? Second: (And I put this question, I know, to men who, from high motives and deep conviction, believe, as I do, that the solvency of this nation and the prosperity of its people rest on a balanced budget.) May we not be in error in expecting too early a date at which, even with the strictest economy and integrity of administration the budget may

be balanced; and can any one of us fix a precise date when such balance can be attained without fear that our prophecy will be made ridiculous by subsequent events? Third: (And I put this question, I know, to men who passionately believe, as I do, that without monetary stability we face chaos.) If any one of us had the grave responsibilities and duties of the President of the United States, and were facing, as he is, international monetary instability abroad and diverse demands for inflation at home, would we at one stroke both tie our hands vis-a-vis the currencies of Europe and the Orient and risk consolidating into one irresistible program the inflationary demands here, by making a statement today that the very definite stabilization of the dollar effected last January and since maintained should stand for all time and under all circumstances?

I pose these three questions only, but there are many more that all of us can envisage. In this highly perplexing state of affairs, are we not justified in expecting wiser decisions, more likely to be productive of good for our country, if we abandon an attitude of antagonism for one of cooperation? By this I do not mean to suggest any surrender respecting what we believe to be principles of sound finance or any abatement in our in-

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sistence upon the utmost economy and integrity in administration. But I do submit in all earnestness the query whether it is not better for the country and for us to modify the manner of the presentation of our views.

And with the foregoing in mind, Mr. President, I feel that the banking fraternity in the last two years has endured enough mass punishment so that it is now in such a chastened and understanding mood that you can accept with hospitality any overture of cooperation on the part of the leaders of that fraternity.

As I conclude I wish to make two statements which I sincerely believe to be true. The first is: In the last twenty-seven days in March, 1933, President Roosevelt contributed more to rescue and rehabilitate our shattered banking structure than any of us did individually or collectively. For that service to us, and through us to our country, he deserves our sympathetic and helpful response, and in addition he deserves, and I am sure he will invite, earnest, reasoned criticisms of any proposed governmental policies respecting the banks. My second statement is: If the Government and the banks continue in the role of antagonists, it will involve the gravest consequences to our country, perhaps even the destruction of many institutions and principles we have long held dear. The poor, whom we have

always with us, will not be much worse off. The rich will survive in comfort at least, as they always have, but the great stratum of our people between these two groups will be irretrievably ruined. If, on the other hand, we abandon our antagonisms for friendly, understanding, sympathetic cooperation, I believe we can make a great contribution toward the perpetuation of our cherished institutions, the encouragement of our fellow-citizens, and the gradual and sound rebuilding of the shattered economic and financial structure of our country.

... In comfort...
 ... the two leaders left their respective
 ... and set out a party in the middle of the night
 ... & free perspective of Samuel's observations in Egypt
 ... would not resemble as follows: "Egypt, this is the
 ... first time you and I have met as opposing commanders of
 ... a field of battle. The last time we met, fifteen years
 ... ago, you were a youth and your father was in command of
 ... the Roman. Fortune favored us on that occasion and the
 ... Roman army was routed and you and your father and your
 ... wealth were preserved from the field by my strategy. In the
 ... interval I have had a modest education. The war has
 ... put your wisdom beyond dispute beyond question. I trust
 ... fortune will be on my side as it was on the side
 ... of my father's father. The war I am about to
 ... the issues between us which have arisen, the Egyptian

Reynolds would expect the President

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Remarks of Jackson E. Reynolds at the
American Bankers Association Banquet *meeting*
in Washington, Wednesday, October 24,
1934.

Mr. President, Mr Toastmaster, Ladies and Gentlemen:

My remarks will be brief, simple and earnest.

I wish to begin with something in the nature of a parable. A little over twenty-one centuries ago two hostile armies confronted each other in a valley lying to the southwest of Carthage. One was the Carthaginians under the command of Hannibal, the other, the Romans under the command of Scipio Africanus. In conformity with the custom of that time, the two leaders left their respective camps and met for a parley in the middle of the plain. A free paraphrase of Hannibal's observations to Scipio would run something as follows: "Scipio, this is the first time you and I have met as opposing commanders on a field of battle. The last time we met, fifteen years ago, you were a youth and your father was in command of the Romans. Fortune favored me on that occasion and the Roman army was routed and you and your father and your uncle were pursued from the field by my cavalry. In the interval I have had a hundred victories. You too have had your victories against other Carthaginian leaders. Fortune alone will determine which of us will be the victor if we go into battle today. You and I can settle all the issues between us without this battle, and I urge that

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we confer together to that end and prevent the useless sacrifice of thousands of our brave soldiers, and restore the peace of the world." Hannibal's wise admonition was not heeded. The battle was fought, and some years afterwards both commanders died in exile - Hannibal by his own hand.

Because of events with which we are all familiar, there exists today, I regret to confess, a hostility between our country's bankers as a group and the group of men whose duty and responsibility it is to administer the affairs of the country. I am profoundly convinced that this contributes to the ills from which we are suffering and I believe its removal will greatly promote the welfare of our country. I should like to draw on the wisdom of Hannibal to address a few brief observations to the leaders of these two groups tonight in the form of questions to which I ask no vocal response, but only that you shall answer them to your own secret selves. To the bankers I should like to pose three questions. The answer to the first will be unanimous, but the answers to the second and third will be various. The first question is : Is it avoidable that either through private philanthropy or the appropriation of public funds the destitute, unfortunate and unemployed must be cared for? Second: (And I put this question, I know, to men who, from high motives and deep conviction, believe, as I do, that the solvency of this

nation and the prosperity of its people rest on a balanced budget.) May we not be in error in expecting too early a date at which, even with the strictest economy and integrity of administration, the budget may be balanced; and can any one of us fix a precise date when such balance can be attained without fear that our prophecy will be made ridiculous by subsequent events? Third: (And I put this question, I know, to men who passionately believe, as I do, that without monetary stability we face chaos.) If any one of us had the grave responsibilities and duties of the President of the United States, and were facing, as he is, international monetary instability abroad and diverse demands for inflation at home, would we at one stroke both tie our hands vis-a-vis the currencies of Europe and the Orient and risk consolidating into one irresistible program the inflationary demands here, by making a statement today that the very definite stabilization of the dollar effected last January and since maintained should stand for all time and under all circumstances?

I pose these three questions only, but there are many more that all of us can envisage. In this highly perplexing state of affairs, are we not justified in expecting wiser decisions, more likely to be productive of good for our country, if we abandon an attitude of

antagonism for one of cooperation? By this I do not mean to suggest any surrender respecting what we believe to be principles of sound finance or any abatement in our insistence upon the utmost economy and integrity in administration. But I do submit in all earnestness the query whether it is not better for the country and for us to modify the manner of the presentation of our views.

A little less than thirty years ago I was a professor in the Columbia University Law School. In my classes there was an eager youth named Franklin Roosevelt. In those days, on the occasions of examinations, I was accustomed to put to him a series of questions, and I am going to be so far guilty of a breach of confidence as to tell you that he did not always answer all of them correctly. Since those days, going our separate ways, he has attained great distinction, and I have attained----- a tolerant old age. I believe that with his genial human qualities, he may not regard it as an impertinence if I ask him a question tonight, providing I give him the same indulgence I have given you, and do not ask him to answer it vocally but only to his secret self. My question to you, Mr. President, is this: Do you not feel that the banking fraternity in the last two years has endured enough mass punishment so that it is now in such a chastened and understanding mood that you can accept with hospitality any overture of cooperation on the part of the leaders of that fraternity?

Thus far my observations have been confined to a parable and a series of questions. As I conclude I wish to make two statements which I sincerely believe to be true. The first is: In the last twenty-seven days of March, 1933, President Roosevelt contributed more to rescue and rehabilitate our shattered banking structure than any of us did individually or collectively. For that service to us, and through us to our country, he deserves our sympathetic and helpful response, and in addition he deserves, and I am sure he will invite, earnest, reasoned criticisms of any proposed governmental policies respecting the banks. My second statement is: If the Government and the banks continue in the role of antagonists, it will involve the gravest consequences to our country, perhaps even the destruction of many institutions and principles we have long held dear. The poor, whom we have always with us, will not be much worse off. The rich will survive in comfort at least, as they always have, but the great stratum of our people between these two groups will be irretrievably ruined. If, on the other hand, we abandon our antagonisms for friendly, understanding, sympathetic cooperation, I believe we can make a great contribution toward the perpetuation of our cherished institutions, the encouragement of our fellow-citizens, and the gradual and sound rebuilding of the shattered economic and financial structure of our country.

FUND REQUIREMENTS FOR HOME OWNERS' LOAN CORPORATION,
FEDERAL HOUSING ADMINISTRATION AND
FARM CREDIT ADMINISTRATION.

A meeting was called in the Secretary's Office, Friday A.M., November 2nd, the Secretary presiding.

Those present were: Messrs. Coolidge, Eccles, Fahey, Thomas, Moffett, Myers, Crowley and Haas.

The Secretary inquired of Judge Thomas as to the progress being made on industrial loans by the Federal Reserve Banks. Mr. Thomas presented figures indicating that the volume of loans of this type was continuing on a low level.

Mr. Moffett distributed some new regulations recently issued by the Federal Housing Administration. Mr. Eccles said the interest rates given in the regulations were too high. Mr. Moffett disputed this point.

The Secretary directed attention to a meeting earlier in the year, when he agreed to a billion dollars increase to Home Owners' Loan Corporation on the understanding that the Federal Housing Administration would be in operation before the billion was disbursed and thus take the burden off the Home Owners' Loan Corporation. The Secretary pointed out that Government credit must be maintained, but that this was not possible with the issuance of guaranteed bonds to the extent of 200 to 300 million dollars monthly. He

further maintained that the prime consideration in a further extension of Federal financing is whether or not the financing will result in putting more people to work.

Mr. Moffett felt that his program was two to four months ahead of schedule, based on reasonable expectation of handling a job of its character; further, that the housing section of the Act was not emergency legislation, but mortgage reform producing a beneficial result over a period of years, and would aid in minimizing the effects of another business crash.

Mr. Fahey said he agreed with the Secretary with regard to cutting down the Treasury burden, but since foreclosures have declined only twenty per cent from their peak, he felt that keeping people in homes was also a matter of major importance that had to be dealt with.

Mr. Eccles pointed out that the Federal Housing Administration program would not get anywhere as long as the Home Owners' Loan Corporation loans remained available. The business, he pointed out, must be diverted toward the Federal Housing Administration. Mr. Eccles added that too much Government money had been used in refinancing debt which gives no stimulus to recovery.

Mr. Fahey said that the loans they were making could not be insured, as a whole they are not good enough.

Mr. Myers said farm foreclosures and city foreclosures

were different in that a farm foreclosure meant that a farmer also lost his job in addition to his home. He thought it unwise to stop refinancing immediately, but suggested using various devices for tapering the loans off. He pointed out that in regions where there has been material economic improvement, applications have declined sharply -- as in the South, for example.

Mr. Crowley pointed out that if the Home Owners' Loan Corporation continued its present policy, it would get all the home mortgages. He suggested some individual handling was necessary. Institutions should be told that after investigation, a percentage of their loans would be taken and that they would have to carry the rest. This, he said, would cut down volume. Fahey said they were doing that now. Mr. Coolidge added that institutions should be willing to hold mortgages and not press foreclosure. Mr. Myers pointed out that a large portion of farm mortgages was held by individuals who are much more difficult to control with respect to foreclosures than are institutions.

Steve: He is leaving on a speaking tour at 12 o'clock.

H. M. Jr. Yes.

Steve: He wants to get your answer on this Collector of Customs out there. You know we -----

H. M. Jr: For what state?

Steve: Well, now as a Collector of Customs, I said to Mac it is merely a signortorship. This fellow is alright. He comes from a family of money and while he has been more or less of a loafer but there is nothing on his morals.

H. M. Jr. Well what man?

Steve: The candidate for the job from Louisville - his name is Brenan, I think it is.

H. M. Jr: Well, I don't know a thing about it.

Steve: Well I think you can go along and appoint him - I don't - I don't believe that there is ----- Mac agrees with me

H. M. Jr: Who is Mac?

Steve: McReynolds

H. M. Jr: Oh.

Steve: We had Ireys - Ireys' squad check him up, see. In other words -----

H. M. Jr: Collector of Customs for where?

Steve: In Louisville.

H. M. Jr: Oh.

Steve: The fellow who was in there took a - an examination for Postmaster and came out high enough on the list to be appointed Postmaster in Louisville.

H. M. Jr: Oh.

Steve: So that left a vacancy.

H. M. Jr: You think it's alright?

Steve: I think it's alright because it's what they call an itinerant report and he's only got about 12 or 14 employees under him.

H. M. Jr: And you say Ireys report is alright?

Steve: Ireys report is alright.

H. M. Jr: Alright, Steve -----

Steve: The only thing they said against him - that he was a two-fisted drinker and they checked that up and they say that that was political enemies - he does take a drink but he knows how to handle it.

H. M. Jr. Now - O.K. on that.

Steve: Yea.

H. M. Jr: And the other thing is Louie Howe called me up - terribly excited about last night. Have you got the reports on those two men from Detroit?

Steve: Yea.

H.M.Jr: Are they on your desk?

Steve: They're in the file here now. I can get them in just a minute.

H.M.Jr: Well get them out and just the second I get a break, I'll ask you to come in.

Steve: Alright - alright sir.

H.M.Jr: Alright.

Steve: Goodby.

October 26, 1934.

Pearson: Hello Jim.

Sloan: How are you feeling?

P: I'm very well, how are you?

S: Well I'm alright. I was reading your column this morning and I was reading about my friend, Dr. James Harvey Rogers.

P: Yes, I hear that stirred quite a little rumpus at the Treasury.

S: It did stir a rumpus?

P: Somebody told me that.

S: I didn't hear anything about it. Where did you find it? Out on the street somewhere?

P: You mean hear about the rumpus or get the----

S: No the story.

P: Story.

S: Yeah.

P: Yes, I - I got it out from one of my friends, Jim, I - As a matter of fact, Rogers been raising hell about it - trying to find out where I got it.

S: He's raising hell?

P: Yes - he's sore and he also said that he thought that-that our friend, young Henry, was sore.

S: Alright Mr. But -----

P: It didn't come from Rogers himself at all.

S: I thought and I was interested and now I'll tell you what I'll do. I want to talk to you about it sometime and see what you can tell me, because it's kind of a funny one.

P: Alright, I'd be delighted to talk to you. I'm leaving tomorrow for the Middle West.

S: Where you going?

P: Going to Omaha, Sioux City and other places.

S: Well I've been there.

P: You've been there? Well I don't - I'm not anxious to go.

S: You're not? How you going - drive?

P: No, I'm taking the train. I got to hurry. But I was going to say I will be gone a week and if you would like to talk to me before then, why we better get together right away.

S: Are you going to be home to-night too?

P: Yeah - I expect to be home tonight.

S: Well I just got a little interest in that mat-----

P: Unless something comes up why-----

S: Well I'm going over to Georgetown Hospital after dinner and suppose I drop by your house on my way back.

P: Let's do that.

S: Alright Drew (?) Thank you.

P: Alright, goodbye.

Oct. 26, 1934.

Keep this

Mrs. Klotz:

The thunder in this record starts in where Rogers says "The point is; etc".

The mechanic thinks he could do better if he could hear a record sometime that is not so highly confidential and I agree with him. It is the only way to get at the seat of the trouble.

McH

Oct. 31, 1934.

H. M. Jr: Morgenthau talking. Is this Dr. Rogers?

R: Yes.

H. M. Jr: In the first place, let me thank you for that map. I won't mention any name, see?

H. M. Jr: Hello

R: Yes.

H. M. Jr: I showed it to the President yesterday and he is very much interested. He also read your accompanying letter. Now what I want to ask you - I don't like to do it over the phone but time is the essence. Could you give me any suggestions of what we could do - it might be - how shall I put it? A restraining influence on that particular country which the map was about.

R: Well that's very difficult to answer offhand.

H. M. Jr: Well would you mind - could you get off a letter during the day that I could get tomorrow.

Rogers: Yes, or I could be down there in the morning if that was of any importance.

H. M. Jr: Well I'll know more during the day.

R: Yes, I'm not quite clear just what you want.

H. M. Jr: Pardon me?

R: I'm not quite clear from what you told me so far just what - just what you want.

H. M. Jr: Well to give you an idea we'd put on some kind of a compensating tax on - say silk.

R: Well since the silk/^{import}is slow right now in the United States that I don't think it would do much damage.

H. M. Jr: No.

R: The point is we import about 90% of their silk - that is their export of raw silk but we are importing very little and they are selling very little - of course what they have in stock - we could buy up a lot of this raw silk very much as we did cotton a few years ago and they have that stored away at Yokahama.

H. M. Jr: Well - I 'd like to - if you could come down and talk to Viner and Powers it would be fine.

R: Alright, I'll catch the midnight train and be down there in the morning.

H. M. Jr: That will be fine, thank you.

R: Good-by

October 30, 1934.

H. M. Jr: Hello - hello.

This is Colonel Schwartzkopf of the New Jersey State Police talking.

H. M. Jr: Yes, Colonel, this is Mr. Morgenthau.

S: Yes sir. We are now preparing with the Attorney General all of our evidence in the Hauptmann case - Lindbergh case.

H. M. Jr: Yes.

M: Mr. Wilson - Frank Wilson of the Intelligence Unit worked with us for a very long time on this case and he is familiar with every detail of it.

H. M. Jr: Yes.

S: And I was wondering ^{if} it would be imposing on you too much and interfering too much with your Intelligence Division if I could make a personal request to have him come up and work with us on it.

H. M. Jr: Well for how long?

S: Why for the next five or six weeks while we're completing this case for presentation in the Court.

H. M. Jr: Well you see Colonel I'd love to do it but before I came in the Treasury we took that - so-called Lindbergh case out of the Treasury and gave it to the Justice and then since then I've put Mr. Wilson on a most important case.

S: Yes, Mr. Wilson told me about that and that's the very reason I am making this in a personal way - I don't want to interfere.

H. M. Jr: Yes, well I'll inquire but I am afraid it is going to be impossible. You know Governor ^{Moore} wrote me.

S: Yes.

H. M. Jr: And I went into it very carefully and I am just as much interested in the Lindbergh kidnapping case as any other citizen - more so.

S: Yes, I know that.

H. M. Jr: And - but you know how it is yourself if you were handling a case that was taken away from you, you'd put your man on something else.

S: Oh absolutely.

H. M. Jr: And Wilson is on this other case - I think he has 30 men under him.

S: I see.

H. M. Jr: And he's right in the midst of it and it's one of the most important cases we've got, if not the most important.

S: I see.

H. M. Jr: But I will look into it and if it - and of course the other day I let you have Wilson for three or four days.

S: He was ^{an} enormous help to us there. You have no idea how much it meant to us to have him for those few days. We got some things started then that we couldn't have gotten started any other way.

H. M. Jr: Yes - I'll look ----

S: He was an enormous help to us.

H. M. Jr: I'll look into it again but I don't want to encourage you.

S: Well I hope you understand my position ---

H. M. Jr: Colonel I ---

S: I wouldn't for the world want to do anything to embarrass you.

H. M. Jr: I understand perfectly.

S: I feel that it's so important that I do appreciate the opportunity of presenting our side of the situation to you.

H. M. Jr: That's alright and I'll take it up and if there is any way of doing it I'll do it.

S: Well I appreciate that very much indeed and I hope you will accept my apology for being presumptuous for having called you on the phone.

H. M. Jr: You don't have to apologize - that's quite alright.

S: I did feel it was that important.

H. M. Jr: I'm glad you called me..

S: Alright, thank you very much.

H. M. Jr: You're welcome.

S: Yes sir.

October 31, 1934.

Henry Morgenthau, Jr.

Mayor LaGuardia: Good morning, Mr. Secretary.

H. M. Jr.: How are you?

LaG: Fine.

H. M. Jr.: Mr. Mayor, I think you and I have got a common interest in Dutch Schultz.

Mayor LaG: Yes.

H. M. Jr.: And I think I saw last week that you made a statement that you're anxious to get him.

Mayor LaG: Yes.

H. M. Jr.: Now I've been told and I - I mean I feel I can talk very frankly and confidentially to you.

Mayor LaG: Yes.

H. M. Jr.: That there's been a feeling between the New York Police Department --

Mayor LaG: Yes.

H. M. Jr.: and J. Edgar Hoover. And on account of that there's been a crossing of wires. I don't know whether it is true or not.

Mayor LaG: I don't think so - not on the top it may be down below.

H. M. Jr.: Yes

Mayor LaG: Because I talked to my Commissioner about that and you see Edgar and I are very good friends.

H. M. Jr.: I see.

Mayor LaG: And we worked together many years when I was a Member of Congress, so that the feeling up on top is alright if there is any sabotizing down below.

H. M. Jr.: Yes. Well now the point is the Treasury wants this fellow.

LaG: Yes.

H. M. Jr: And he's the last of the big gangsters that are out.

Mayor LaG: Yes.

H. M. Jr: And if there is anything we can do to work with you I want to let you know that.

Mayor LaGa: Why absolutely and and ----

H. M. Jr: But it's the Treasury that wants him you see.

Mayor LaG: Anything we can do to co-operate with Department of Justice we'll do.

H. M. Jr: Yes, yes. Well it's our own people - Elmer Irey has been out for him now for about a year.

Mayor LaG: Yes.

H. M. Jr: You know Elmer Irey?

Mayor LaG: Yes.

H. M. Jr: And so if there is anything that the Police Commissioner has or there is anything that we can do if you tell him that Elmer Irey is ready and anxious to co-operate.

Mayor LaG: Well as long as you tell me I wish that either Hoover or Irey would tell me frankly if there's been any lack of co-operation in any way ---

H. M. Jr: Yes

Mayor LaG: so that I can straighten that out immediately.

H. M. Jr: I see.

Mayor LaG: You see? Because I think it's a defiance not only to the city but to the whole government that this fellow is at large.

H. M. Jr: No question about it.

Mayor LaG: But my hunch is that he is not very far from this city.

H. M. Jr: Yes. Well I'll ask Irey - I mean I can't ask Hoover because he doesn't work for me but I'll ask Irey if he does feel there is any and if there is I'll call you again myself.

Mayor LaG: Will you please?

H. M. Jr: Yes.

Mayor LaG: And you can tell me very frankly because at the top it's alright. If there's any feeling then it's down below and then I would suspect that it isn't one of irritation or jealousy but one of rather protecting this particular person.

H. M. Jr: I see.

Mayor LaG: And I want to get right to it.

H. M. Jr: I knew you would.

Mayor LaG: So don't hesitate to let me know.

H. M. Jr: Thank you.

Mayor LaG: And is it alright if I talk to Hoover and tell him that we've had this little talk?

H. M. Jr: Well you could use your own judgment on that.

Mayor LaG: Yes because I want to get any little snag eliminated and as I say some of these things that I've observed I think that this gentleman has very strong connections.

H. M. Jr: Yes.

Mayor LaG: I want to break that down. And if - anytime that Irey wants to talk to me, tell him to come right in.

H. M. Jr: I don't think it would serve any particular purpose for the moment if you did talk to Hoover but you ---

Mayor LaG: Alright.

H. M. Jr: --but you can use your own judgment.

Mayor LaG: Alright. I - I won't because this thing is very very important.

H. M. Jr: Yes.

Mayor LaG: And just let me know if there is anything you want the whole -- any part of the Department to do and it will be done at once.

Hello.

Hello, this is Hoover talking, Mr. Secretary.

H. M. Jr: Yes, how are you?

Hoover: Fine, thank you, hope you're the same.

H. M. Jr: Mr. Hoover, I think I can take a chance on the telephone.

Hoover: Yes, this is the through wire - confidential wire.

H. M. Jr: Oh. We're particularly interested in Dutch Schultz.

Hoover: Yes.

H. M. Jr: And I was just talking to Mayor LaGuardia and told him that the _____ was that the New York Police really weren't very keen about it, see?

Hoover: Yes. I've heard that same story.

H. M. Jr: And he said whether I could substantiate it and I said I doubted it.

Hoover: Yes.

H. M. Jr: And he said that - well I've heard about some jealousies between yourself and down there. I don't know whether it is true or not.

Hoover: Yes.

H. M. Jr: But just purely gossip.

Hoover: Yes.

H. M. Jr: But - so he said anything that we could do or he could do to let us know but I just wanted to tell you personally as far as the Treasury is concerned that that's the last of the big income tax gangsters who are out and I am particularly interested in it myself.

Hoover: Oh, I am very glad to know that. We haven't been making any first - what they might call first line drive on trying to find him because we thought that naturally it was a matter the Treasury would give it's first attention to but, if you would like to have us do so, I would be very glad indeed to instruct our New York Office to just bring all pressure to bear on that. We've heard a lot of

unsavory rumors. They may be without a scintilla of foundation. I don't know.

H. M. Jr: You say you have not been giving it particular attention?

Hoover: No, that is we've only been looking for him as we would for any other general fugitive.

H. M. Jr: Yes.

Hoover: Because he was not one of the cases that we've worked on and we've been looking for some of these kidnapers primarily and have had him more or less in what we would call the secondary class because I assumed that the Special Intelligence Unit were bearing down themselves on it.

H. M. Jr: Well they are.

Hoover: Yes.

H. M. Jr: And - they are - but I don't - I just - and

Hoover: Well, I - I really think, Mr. Secretary, that a case of that size being as important we ought to more or less pool our assets so to speak.

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

Hoover: And everyone of us kind of just put our shoulders to the wheel to try to find him.

H. M. Jr: That - that's the attitude.

Hoover: And I'll be very glad indeed to see that that is done at once. I'll see that our New York office and we here will just put him down as kind of public enemy No. 1 secretly so we can find him.

H. M. Jr: Yes. I don't think the publicity on it will help find him.

Hoover: Oh no, no indeed, I think the thing to do on that case, from what I have known of it in just a very general way, is to make certain contacts and connections that can't be made I think around New York because I think he is in or around there.

H. M. Jr: Yes.

- 3 -

Hoover: And do it very secretly and just out of a clear sky if we can do so and be lucky enough to just bring him in.

H. M. Jr: Fine.

Hoover: And I'll be very happy to see that those orders are issued at once here.

H. M. Jr: Right.

Hoover: And bear down on it and see whether we can't help out on that for you.

H.M. Jr: Thank you.

Hoover: Be very happy to.

H. M. Jr: Thank you.

Hoover: Thank you, Mr. Secretary.

November 1, 1934.
Thursday.

Mrs. Klotz:

I don't know who the other speaker
is on this. This call was made around
4:35 yesterday.

McH

*Frank
Altschul
Spoke to HM*

Nov. 2, 1934.

H. M. Jr.: Hello

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Yes?

H. M. Jr.: Henry talking. If the next couple of days you hear of anything that is going on and find that you think you can pass along to me why I'd appreciate having it.

Well, now, Henry.

H. M. Jr.: Yes

After I left the office to-day a cable came in which I don't understand.

H. M. Jr.: Yes.

And which I will try and get an explanation of over night.

H. M. Jr.: Yes.

But it certainly contains a clear intimation that something or other - this is just to you -

H. M. Jr.: Yes.

That something or other is in the wind over the week-end.

H. M. Jr.: Yes.

Now what that is they don't say.

H. M. Jr.: Yes.

But the cable takes the general view that they don't think over the week-end is a good time to be short of gold.

H. M. Jr.: Yes.

I don't know why they should say that because we have no position in gold - haven't had except by the way of intimation.

H. M. Jr.: Yes.

And I don't know whether that means Brussels or whether that means - or what that means.

H. M. Jr.: Yes.

But I'll be very glad to call them up on the phone and find out.

H. M. Jr: Will you and if there is anything that you feel you can pass along - why ---

Oh my dear fellow I feel when it comes to talking to the Secretary of the Treasury I can pass on anything that we get.

H. M. Jr: Well that's very nice.

And I will point ---

H. M. Jr: There's something doing. I don't know - there's something going on.

I won't call them up on the Pennsylvania - I'll tell my operator to call on the Pennsylvania - I'm uptown now and to get word to me tonight what it's all about.

H. M. Jr: Right. Thank you

If they can and where will I reach you during the evening.

H. M. Jr: Well ---

If I get it.

H. M. Jr: If - if I couldn't do anything before the morning anyway.

What?

H. M. Jr: I couldn't do anything before morning anyway. What?

That's right. I thought it might be something you would want to think about or discuss with someone

H. M. Jr: No - if you could call me

Henry?

Yes. They may be very guarded could you - have you any suggestion in your mind as to what line of inquiry I might follow?

H. M. Jr: No just that - what you're talking about

Yes. I don't know what that telegram means

H. M. Jr: Yes.

... presented this to F.O.K. at ...
the harbor was the ...

But I'll try and find out.

H. M. Jr: O.K.

Goodby Henry.

H. M. Jr: Thank you.

November 1, 1934.
Thursday.

*Eccles presented this to F.O.M. at 5.30 P.M.
The purpose was to show where he
stood.*

Nov 2, 1934.

DESIRABLE CHANGES IN THE ADMINISTRATION
OF THE
FEDERAL RESERVE SYSTEM

1. Relation of monetary management to business stability. Fluctuations in production, employment and the national income are determined by changes in the available supply of cash and deposit currency and by the rate and character of monetary expenditures. The effect of an increased rate of spending may be modified by decreasing the supply of money, and intensified by increasing the supply of money. Experience shows that without conscious control the supply of money tends to expand when the rate of spending increases and tends to contract when the rate of spending decreases. Thus, during the depression the supply of money instead of expanding to moderate the effect of decreased rates of spending, contracted, and so intensified the depression. This is one part of the economy in which automatic adjustments have an intensifying rather than a moderating effect. If the monetary mechanism is to be used as an instrument for the promotion of business stability, conscious control and management is essential.

2. Present possibilities of monetary control. At the present time main reliance must be placed upon increased governmental and private expenditures to bring about a rise in the national income. The most important role of monetary control at the moment is assuring that adequate support is available whenever needed for the emergency financing involved in the recovery program.

3. Role of monetary control in the future. Two supremely important duties are likely to devolve upon the reserve administration in the near future. The first is assuring that a recovery does not result in an undesirable inflation. The second is assuring that a recovery is not followed by a depression.

4. Desirable changes in the administration of the Federal Reserve System. In order to endeavor, with some prospects of success, (a) to render prompt support for the emergency financing in case of need, (b) to prevent the recovery from getting out of hand, and (c) to prevent the recurrence of disastrous depressions in the future, it is, in my opinion, essential that the authority of the Federal Reserve Board should be strengthened in the following ways:
 1. Complete control over the timing, character and volume of open market purchases and sales of bills and securities by the Reserve Banks should be conferred upon the Federal Reserve Board.

 2. The Governors of the individual Federal Reserve Banks should be appointed annually by their Boards of Directors, subject to the approval of the Federal Reserve Board.

5. Necessity for strengthening the authority of the Federal Reserve Board. Although the Board is nominally the supreme monetary authority in this country it is generally conceded that in the past it has not played an effective role, and that the system has generally been dominated by the Governors of the Federal Reserve Banks. As a consequence, the Board has not commanded the respect and prestige to which its position would ~~entitle~~ entitle it, nor has membership on the Board been as highly desired as it should be to attract the necessary talent. The great disparity in compensation has also contributed to this condition. This has led to the unfortunate result that banker interest, as represented by the individual Reserve Bank Governors, has prevailed over the public interest, as represented by the Board. The relatively minor role played by the Board can, in my opinion, be attributed to its lack of authority to initiate open market policy, and to the complete independence of the Reserve Bank Governors.

6. Open market operations. Far and away the most important instrument of reserve policy is the power to buy and sell securities in the open market. In this way reserves, on which deposits are based, may be given to or taken away from member banks. It is not too much to say that who possesses this power controls the banking system, and, in large measure, the supply of money.

In the present administrative organization the power to initiate open market policy rests with the Reserve Banks. The Federal Reserve Board possesses only the power to approve or disapprove. Thus, the effective power over money rests with the individual reserve banks and not with the Board. However much the Board may desire an energetic buying or selling policy it is powerless to initiate such a policy. On the other hand, the Reserve Banks' ability to carry out the policy is dependent on the Board. It should be noted that the Bank Act of 1933 effected no real change in this respect. From 1930 to 1933 the Open Market Policy Committee was composed of the twelve Federal Reserve Bank Governors. At present the Federal Open Market Committee is likewise composed of the twelve Governors and hence is dominated by the same men who were responsible for the policy followed during the depression. The Governors, by the very nature of their appointments, duties and associations, cannot help but be profoundly influenced by a narrow banking rather than a broad social point of view.

There is no reason to suppose that this administrative organization, which functioned so badly in the past, will function any better in the future. The diffusion of power and responsibility, the root cause of the trouble, remains. Over one hundred individuals are responsible, in various degrees, for the formulation of policy. Obviously the more people there are who share the responsibility, the less keenly any one of them will feel any personal responsibility for the policies adopted. It is therefore almost inevitable that such a loosely knit and cumbersome body as the Federal Reserve Administration should be characterized by inertia and indecisive action generally. Moreover a complete stalemate resulting from a disagreement of the reserve banks and the Board is always possible. To correct this condition reform must be in the direction of concentrating authority and responsibility for control into the hands of a small policy formulating body.

7. Appointment of Governors. As the system has developed the Governors, who are not even mentioned in the Act, have positions of major importance in influenc-

ing policy. Moreover, they are entirely independent of the Board. If the power of approval of appointments of the Reserve Bank Governors were conferred on the Board, the possibility of lack of cooperation and friction would be obviated in the future, while the prestige of the Board would be enhanced.

8. Agitation for central banking. The adoption of these suggestions would introduce certain attributes of a real central bank capable of energetic and positive action without calling for a drastic revision of the whole Federal Reserve Act. Private ownership and local autonomy are preserved, but on really important questions of policy authority and responsibility are concentrated in the Board. Thus, effective control is obtained, while the intense opposition and criticism that greets every central bank proposal is largely avoided.

I gave this plan to F.D.R. at Cabinet on Nov 2/34 *W. M. W.*

November 2, 1934. 158

: The President

: Secretary Morgenthau

I. THE PLAN:

As a primary step looking to better coordination and perhaps ultimate consolidation of functions of bank examination and supervision resting with Federal agencies, it is proposed immediately to

- (1) Merge the Office of the Comptroller of the Currency with the Board of the Federal Deposit Insurance Corporation, by making the Comptroller of the Currency the chief executive officer of the Corporation. (This can be done by amendment to the by-laws of the Corporation).
- (2) Amalgamate the administrative and examining personnel of the two agencies by
 - (a) combining the fifteen district offices of FDIC with the twelve field offices of the national bank examining force in the twelve Federal Reserve cities.
 - (b) selecting staff for these offices from the combined personnel, after careful analysis and consultation with the twelve Federal Reserve agents.
 - (c) giving FDIC examiners appointments as national bank examiners and vice versa.

- (d) having the Comptroller appoint the FDIC as receiver for all national banks now in receivership.
 - (e) reorganizing the Washington offices to put them on an efficient, economical and businesslike basis.
- (3) Consolidate the functions of the two units, as completely as is feasible without Executive Order or legislation. (Some functions of the Comptroller, such as issuance of national bank notes, would not concern the FDIC).

II. ADVANTAGES:

Advantages to be gained by the above are:

- (1) Closer cooperation and harmony of policy with the Federal Reserve System and the R.F.C. through consolidation of two most important Federal examining agencies.
- (2) A step toward uniform supervision of National and State banks (yet with preservation of the dual system).
- (3) Uniform examination methods and policies for the 90 per cent of all commercial banks now in F.D.I.C. (See attached table).
- (4) Unity of administration of bank examinations as to this 90 per cent in the field, one corps

of examiners in each district replacing two, making possible more efficient distribution of work.

- (5) Reduction of complaints from bankers about multiple supervision.
- (6) Authority in the F.D.I.C. for enforcing bank standards which will do much to prevent bank failures and which will so serve to protect the corporation from losses to the insurance fund.
- (7) A united front on legislative proposals -- and the good will of Members of Congress who are committed to developing and strengthening the F.D.I.C.
- (8) Better statistical data on banking.

III. COMMENT:

- (1) Attention will be given to perfecting and crystallizing the merger through legislation or Executive Order.
- (2) All banks should in time become members of the Reserve System and should be examined by the F.D.I.C. The details of control of the banking system and the examinations are closely interrelated and should either head up in the same group or methods of more than ordinary cooperation be devised.

(3) If the Present Comptroller accepts the position of Federal Reserve Agent at San Francisco, two new appointments to the Board of the F.D.I.C. must be made and these two cannot be of the same political party. The member who is the Comptroller and Executive Officer cannot be Chairman of the Board.

Q. Now, if the Comptroller accepts the position of Federal Reserve Agent at San Francisco, would that require the appointment of two new members to the Board of the F.D.I.C.?

A. Yes.

Q. And these two new members cannot be of the same political party as the Comptroller and Executive Officer, is that correct?

A. Yes.

Q. And the Comptroller and Executive Officer cannot be Chairman of the Board, is that correct?

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A. Yes.

Q. And the Comptroller and Executive Officer cannot be Chairman of the Board, is that correct?

A. Yes.

Frank A

How are you?

H. M. Jr:

I'm fine.

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I just spoke to Collins (?)

H. M. Jr:

Yes.

And they tell me that the political situation is very confused - that there is much more tension than there was a few months ago - that it is quite possible that the Cabinet will resign tonight or tomorrow

H. M. Jr:

Yes.

It is quite uncertain as to what will happen next although they are inclined to think that it will be the same old crowd like LaVal (?) of Flanda (?)

H. M. Jr:

Yes.

That they don't - they say that everybody has been warned of danger of something in respect to gold.

H. M. Jr:

Yes.

They don't think there is anything immediate there - they don't look for any absence (?) any short number of days or even of weeks but give me a general impression that that move is getting nearer.

H. M. Jr:

Ah ha. That is devaluation in Belgium or France?
France.

H. M. Jr:

France.

That it's getting nearer.

H. M. Jr:

Yes.

But they don't - I spoke to both my senior and the other partner over there - they're having a in the Regional Bank of France, you know

H. M. Jr:

Yes

And they are apparently quite nervous about the situation in France. They think it's quite possible there will be some disturbances or manifestations again.

H. M. Jr:

Yes, I see.

Excuse please.

But they don't think that there is going to be any early Cabinet action in devaluation although I get the impression from the way they don't say things that they have the feeling that it's getting nearer.

Nov. 7, 1934.

Nearer. Well --

That's not of much value to you Henry but it's all I could get.

H. M. Jr: Thank you very much.

O.K.

H. M. Jr: Goodby

November 2, 1934.
Friday.

Right, I think there's something a little bit of good about it.

I wish you would be the first to do it.

Right, I'll do it.

What do you think you can do for me?

I'll do it for you.

H. M. Jr: Thank you very much.

O.K.

H. M. Jr: I got an idea I'd like you to put up to your Board of Directors.

Yes Sir.

H. M. Jr: That they offer, in their own name, a reward of say \$10,000 to any agency who can apprehend Dutch Schultz and let them do it in their own name and get the publicity.

I'm wondering what became of that gentleman. I haven't heard his name for six months.

H. M. Jr: Well, I think personally it would be swell publicity for them.

I'll do it. I'll put it up to them.

H. M. Jr: And it would help us.

Tax payments are steadily going up.

H. M. Jr: I know they are.

We're feeling pretty good about the thing.

H. M. Jr: Well I think that - I mean - I think the public reaction would be swell. What do you think, first flush?

Well that's a - he's a sort of Dillinger that ---

H. M. Jr: I know but we have no money for that purpose and I've talked around here and we think that if they do it just like the Washington Herald offering a \$1,000 reward.

Yes.

H. M. Jr: And---

Alright, I think there's something - there's a lot of good stuff in it.

H. M. Jr: I think its reaction to the institute would be excellent.

Alright, I'll do it.

H. M. Jr: When do you think you can let me know? I'll be back Wednesday.

I'll have you an answer by then.

H. M. Jr: Thank you - \$10,000.

Alright.

November 2, 1934 - Friday.

November 7th

The Secretary called in Viner, Oliphant, Bell, Coolidge, Gaston, Eccles and Haas and discussed with them what Mr. Morgenthau calls President Roosevelt's five year plan. He started from the beginning and for two hours to-day the report was read and discussed. Mr. Haas will brief it for the Secretary. It is attached herewith.

65-A

FEDERAL EMERGENCY ADMINISTRATION OF PUBLIC WORKS

CONFIDENTIAL

PROPOSED NATIONAL CONSTRUCTION PROGRAM

1936 - 1940

NOVEMBER 26, 1934

FEDERAL EMERGENCY ADMINISTRATION OF PUBLIC WORKS

PROPOSED NATIONAL CONSTRUCTION PROGRAM

1936 - 1940

NOVEMBER 30, 1934

Contents

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store the balance of the economic life of the country.

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Volume of construction was in the order of \$11,000,000,000 to
\$12,000,000,000. This is an amount which is equal to the annual
gross value of all new machinery being produced and was
50% of the value of all other manufacturing products in 1928. Con-
struction declined from these levels to about \$2,000,000,000 by
\$4,000,000,000 in 1932 and from that point to \$1,000,000,000
There can be no general sustained recovery so long as an industry
as large as this remains depressed.

Therefore, it is in the interest of construction and business
conditions of the country that a program of construction be required
and provided by the Government for a period commencing in 1933.

THE OBJECTIVE OF THE PROGRAM

The objective of a National construction program is to restore the balance of the economic life of the country. The main reason why the National economy is so out of balance, and, therefore, the main reason why recovery to date has been relatively small and unsustained is that construction has shown no improvement. There have been two upward movements in business since the summer of 1933, followed by recession because there was no underpinning of an expanding construction volume.

Emphasis is placed on construction because a large part of our production resources have always been engaged in the construction industry. During the years 1925 through 1929 the annual volume of construction was in the range of \$11,000,000,000 to \$13,000,000,000. This is an amount that was equal to the annual gross value of all farm products during the same period and was 30% of the value of all other manufactured products in 1929. Construction declined from these levels to about \$3,000,000,000 or \$4,000,000,000 in 1932 and there has since been little recovery. There can be no general sustained recovery so long as an industry as large as this remains depressed.

Furthermore, it is in the field of construction that business confidence, or the lack of it, is important. It does not require any confidence in the future for a clothing manufacturer to fill

orders. It requires only a little for a retail merchant to increase his stock of goods on hand. Confidence, or the lack of it, however, is most important in the construction industry. Construction projects must be financed on long term and capital is notoriously timid in the face of risk and uncertainty, so that rates of interest become prohibitive under such conditions. But even if capital could be secured at reasonable rates, business men are hesitant to undertake an enterprise that will pay out only over a long period of years in the face of what, to them, appears to be incalculative risks.

There has been no revival in private construction since 1932 and conditions do not seem much more favorable for it now than they were a year ago, so if this large part of American industry is to be revived in the near term future, it is evident that the only way it can be accomplished is by a much enlarged public works program. The accompanying table sets forth a program that meets the tests.

1. It is large enough to be effective in restoring the balance in economic life and so in bringing about a large increase in employment in most lines of industry.
2. It is composed of types of projects that can be carried out expeditiously. It is not enough for the whole program to be big, unless it can be gotten well underway in a reasonable period of time. The large amount of Federal projects, the grade crossing eliminations, and the railroad loans insure that this one will be.
3. It will break the jam in private construction and provide the conditions for its improvement. Private

Federal Projects { 500 non returnable / 250 self liquidating } C.C.C. \$500.

Proposed Five-Year Construction Program

Fiscal Years

| | 1936 | 1937 | 1938 | 1939 | 1940 | Total |
|------------------------|----------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Non-Federal | 1,000,000,000 \$1,500,000,000 | \$1,500,000,000 | \$1,500,000,000 | \$1,500,000,000 | \$1,500,000,000 | \$7,500,000,000 |
| Urban Housing | 1,260,000,000 | 920,000,000 | 1,100,000,000 | 900,000,000 | 695,000,000 | 4,875,000,000 |
| Subsistence Homesteads | 25,000,000 | 50,000,000 | 50,000,000 | 50,000,000 | 50,000,000 | 225,000,000 |
| Railroads | 310,000,000 | - | - | - | - | 310,000,000 |
| Grade Crossings | 600,000,000 | 200,000,000 | - | - | - | 800,000,000 |
| Rural Electrification | 200,000,000 | 100,000,000 | - | - | - | 300,000,000 |
| Federal | 850,000,000 | 450,000,000 | 250,000,000 | 250,000,000 | 250,000,000 | 2,050,000,000 |
| C.C.C. | 300,000,000 | 300,000,000 | 300,000,000 | 300,000,000 | 300,000,000 | 1,500,000,000 |
| | \$5,045,000,000 | \$3,520,000,000 | \$3,200,000,000 | \$3,000,000,000 | \$2,795,000,000 | \$17,560,000,000 |

Grade crossings 300 mil. raised by taxes
Rural electric 100 mil money back

Federal amortization every 100.

- ① no grant and 3% + amortization - 1 billion
- 2. Slum clearance 500 mil - 3-50% recoverable with interest 3%
- 3. Garden Housing 100 mil 50-50
- 4. Rural Housing 600 mil all returnable
- 5. R.R. equipment 250 mil " "

construction should be increasing substantially within a two-year period, so that the Federal program, can and should be contracted as private construction picks up.

4. The program should strengthen the condition of the Treasury, by a relatively early reduction in relief outlays and by increasing its revenues. Relief outlays will decline as men are re-employed as a result of reviving business volumes and Treasury revenues will increase for the same reason.

Summary of Expenditures and Employment

| Year | Expenditures | Average No. Men Employed Through Year | | |
|------------------------|-----------------|---------------------------------------|-----------|-----------|
| | | Direct | Indirect | Total |
| 1936 | \$5,045,000,000 | 2,000,000 | 2,000,000 | 4,000,000 |
| 1937 | 3,520,000,000 | 1,500,000 | 1,500,000 | 3,000,000 |
| 1938 | 3,200,000,000 | 1,362,000 | 1,362,000 | 2,724,000 |
| 1939 | 3,000,000,000 | 1,276,000 | 1,276,000 | 2,552,000 |
| 1940 | 2,795,000,000 | 1,189,000 | 1,189,000 | 2,378,000 |
| TOTAL \$17,560,000,000 | | | | |

Size of the Program

It is necessary for the program to be large, if it is to be effective. The volume of construction from 1925 through 1929 was in the range of \$11,000,000,000 to \$13,000,000,000. With the price level 25% lower now than then, it is estimated that construction amounting to \$7,500,000,000 to \$8,000,000,000 a year

would be roughly equivalent in employment both direct and indirect to the higher dollar volumes of construction that prevailed during the years mentioned. It is estimated that private construction at the present time is at the rate of \$2,500,000,000 to \$3,000,000,000 a year, so that a Government program of around \$5,000,000,000 a year would bring the total construction volume to the figure mentioned above, as representing an adequate amount of construction to give a volume of employment equal to that prevailing in the period from 1925 to 1929.

This volume of expenditure would provide direct employment for about 2,000,000 men per month. The indirect employment in this production, transportation and merchandizing of construction materials would be about equal to the direct employment.

Total employment created, however, does not stop here. The expenditure of \$5,000,000,000 a year becomes income to workers on construction sites and in construction material factories, to contractors and to holders of shares in corporations. The spending of this income for consumers' goods will provide employment for other laborers who in turn will have incomes to spend which they did not have before and so on in decreasing waves of influence. The amount of employment thus created, which may be referred to as secondary indirect employment, is variously estimated. The amount depends on the assumptions that are made as to the proportion of the expenditure that becomes income and the proportion of the income that is spent and not saved by the various groups of recipients all the way along the line.

These proportions will depend in part upon the total volume of construction, including that privately financed, and in part upon whether this volume is contracting or expanding, and this involves the question of the continuity of the Government program. If the total volume of construction is small, jobs will not last long and others will not be easy to find, so in the face of job uncertainty incomes will be conserved so far as possible and secondary indirect employment will be relatively small. A program based upon a definite amount of money, and which is to terminate within a relatively short period of time, tends to have the same effect on secondary indirect employment.

The present Public Works Administration program has been relatively ineffective for both these reasons. It has been too small and will terminate in another year. In many areas it has already terminated. If private construction had shown more recovery, the present public works expenditure would have been more effective in stimulating employment because then they would have been a part of a large aggregate amount.

Barring recovery in private construction, total Government financed construction must be very substantially larger than it has been and must be continuous if the full indirect effects are to be felt. The present proposal is entirely adequate to realize the full indirect effects which have not been realized under the present public works expenditure.

Under a program of this size it is estimated that total employment will be from three to five times the direct employment. In other words, annual average total employment under these assumptions would be 8,000,000 to 10,000,000 persons a year as the result of expending this amount of money.

Effect on Private Construction

It is believed that this program will provide the conditions for a revival in private construction. The following are examples of what is likely to happen:

1. In the case of railroads, traffic volume will increase substantially if the program is successful in the first two years. A pick-up in traffic means an improvement in revenues so that the railroads will spend on their own account much larger sums of money on maintenance and repair and new equipment.
2. It will put into operation the financial machinery provided by the Federal Housing Administration to finance private building of homes. This agency provides a financial set-up for home building that reduces the cost of financing, but it does not provide a demand for these facilities. There is not yet an active demand for new housing but once business revives so that the working population moves back into the industrial centers to resume their jobs and as families, who are living together seek separate quarters, there will be an active demand for housing facilities and then the low cost of financing such housing provided by the F.H.A. will be an important factor in the early revival of home building. With a revival in business, residential building could reach large proportions within a two-year period.
3. Another example of the way this program could break the jam so that private initiative could carry on, is found in the way factory construction always responds to an increase in manufacturing production. As far

back as the records go, they show that factory construction has always increased at least two or more times as much percentage wise as the increase in factory out-put. There is no reason to believe that this time will be different.

4. There is still another way in which the Federal program as proposed will break the jam. Most corporations have continued throughout the depression to charge substantial amounts for depreciation. That these amounts have not been actually used to replace plant or machinery and equipment is indicated by the low level of out-put of such products. It is also a matter of general knowledge that factory machinery is in a deplorable state of repair. A large Federal program such as the one proposed here would also break this jam. Manufacturers will be willing to replace machinery and other equipment when they see a continuous stream of orders in prospect.

It is believed, therefore that in these and other ways a Government construction program of sufficient size and composed of types of projects that could be gotten under way promptly would not only restore the balance in our national economy during the next two years but would break the jam in private construction in the way indicated by these examples, so that private initiative and private capital would carry on and the Government program could be contracted as shown in the table.

NON-FEDERAL PROJECTS

It is estimated that non-Federal construction projects under a five-year program would amount to about \$1,500,000,000 a year under a liberalized financing plan. By non-Federal projects is meant construction enterprises undertaken by public bodies other than the Federal Government and include streets and highways, sewers, water, buildings, bridges and structures, flood control and power. An expenditure of \$1,500,000,000 on such projects would furnish an estimated employment of 7,500,000 man-months or the equivalent of 625,000 men a month through a year. Indirect employment would be from three to five times greater, depending on the total volume of construction, the continuity of the program, and the effect on private construction. Labor costs would amount to approximately \$556,625,000 (37.1%), materials \$619,600,000 (41.3%), and miscellaneous \$323,775,000 (21.6%). Both the grant and the rate of interest should be increased. It will be necessary to increase the grant to get the volume of construction mentioned. The rate of interest on the loan should be increased to get as much private capital into the program as possible.

Annual Volume of Applications

The estimate of \$1,500,000,000 is based on the assumption that the grant will be increased to 40% or 50% of the cost of the project. State, city, and other local governments spent on construction of all kinds other than public roads an amount ranging from \$1,500,000,000 to \$1,800,000,000 annually during the period from 1924 to 1929. This gives an indication of the magnitude of their construction requirements. It is recognized that cities were expanding during that period, that suburban developments were extensive and required streets and sidewalks, schools, water, and sewers, and that financing was easy. However, construction costs were high. Today, costs

are considerably lower, and with modifications of codes, costs should be still lower; but financing is difficult, debts large, and the economy motive is strong. Sufficiently attractive terms, however, should overcome the unwillingness of State and local governments to undertake the construction of projects they need.

Demand for Projects

With a 30% grant and a loan for the balance at 4% interest, repayable in 20 to 30 years, the Public Works Administration received applications for loans and grants in the amount of \$4,500,000,000 in seven months. Up to December, 1933, they were filed at an average rate of over \$700,000,000 a month; and even after that date, when it had been announced that all public works funds had been allotted, applications continued to come in at the rate of \$200,000,000, until in February, 1934, State offices were instructed to discontinue accepting them.

Thus, with only a 30% grant and a loan for the balance at 4% interest, with a new organization, and with the technique of obtaining funds unknown, a huge volume of applications poured into State Engineer offices in a relatively short period of time—an amount that was about three times the annual expenditure of State and local governments in the prosperous years from 1924 to 1929.

In view of this experience, there appears to be little doubt that the demand for non-Federal projects will be at least \$1,500,000,000 annually under more liberal terms.

Applications Now in Hand

The Public Works Administration has in hand at present approximately \$2,000,000,000 of projects of the types discussed that could be acted upon without delay. These are applications received after available funds had been allotted. In addition, there are over \$800,000,000 in applications that have been rejected, a portion of which could be favorably considered if the more liberal terms contemplated were applied to them. State Engineer offices are still functioning in connection with the construction of projects previously approved and they are in a position to receive new applications as soon as they are authorized to do so. Therefore, there need be no delay in setting up the machinery for carrying out the new program.

Terms to Borrowers

It is important that any loans made by the Government to municipalities should be on terms that will give potential marketability to the securities taken by the Government, in order that the fullest possible participation of private capital may be obtained. This would have the double beneficial effect of reducing the burden upon the Government budget and of stimulating the flow of private capital.

A rate of interest higher than 4% would substantially increase the marketability of such securities, and a higher interest rate could be set without increasing the cost to the borrower by increasing the amount of the grant. The net effect on the Federal budget

would be a substantial reduction in the amount of funds which would be supplied. It is a simple matter to compute the percentage of grant which would produce an interest cost equivalent to the interest cost to the borrower under existing procedure, and any resistance to a higher rate of interest could be explained by tables showing that there was actually no increase in the cost of the loan.

Employment

The expenditure of \$1,500,000,000 on non-Federal projects will provide about 7,500,000 man-months of direct employment. If the money is all spent in one year this is equivalent to saying that on the average it will provide employment for 625,000 men a month. Indirect employment will be four or five times the amount of direct.

Estimated Distribution of \$1,500,000,000 for Non-Federal Projects

| Type of Project | Allotment | Direct Employment | | Expenditures | | | | | |
|------------------------|------------------------|----------------------|------------------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|
| | | Estimated Man-Months | Avg. No. Men Per Month | Wages and Salaries | % | Materials | % | Miscellaneous | % |
| Sts. & Hwys. | \$150,000,000 | 750,000 | 62,500 | \$47,100,000 | 31.4 | \$63,300,000 | 42.2 | \$39,600,000 | 26.4 |
| Sewers | 200,000,000 | 1,000,000 | 83,333 | 80,000,000 | 40.0 | 74,600,000 | 37.3 | 45,400,000 | 22.7 |
| Water | 150,000,000 | 750,000 | 62,500 | 55,800,000 | 37.2 | 58,500,000 | 39.0 | 35,700,000 | 23.8 |
| Buildings | 400,000,000 | 2,000,000 | 166,667 | 168,000,000 | 42.0 | 173,600,000 | 43.4 | 58,400,000 | 14.6 |
| Bridges and Structures | 300,000,000 | 1,500,000 | 125,000 | 105,600,000 | 35.2 | 132,600,000 | 44.2 | 61,800,000 | 20.6 |
| Flood Control | 75,000,000 | 375,000 | 31,250 | 27,600,000 | 36.8 | 18,150,000 | 24.2 | 29,250,000 | 39.0 |
| Water Power | 50,000,000 | 250,000 | 20,833 | 18,600,000 | 37.2 | 19,500,000 | 39.0 | 11,900,000 | 23.8 |
| Other Power | 75,000,000 | 375,000 | 31,250 | 23,925,000 | 31.9 | 34,350,000 | 45.8 | 16,725,000 | 22.3 |
| Miscellaneous | 100,000,000 | 500,000 | 41,667 | 30,000,000 | 30.0 | 45,000,000 | 45.0 | 25,000,000 | 25.0 |
| TOTAL | \$1,500,000,000 | 7,500,000 | 625,000 | \$556,625,000 | 37.1 | \$619,600,000 | 41.3 | \$323,775,000 | 21.6 |

III

URBAN HOUSING

A five year \$4,875,000,000 program to provide about 1,390,000 dwelling units through the operation of direct Federal enterprise, local public housing authorities, and private organizations financed by the Federal Government with the objective of (1) eliminating slum and blighted areas in urban centers; (2) providing decent housing for a deserving low-income class to which it has heretofore been unavailable; (3) mitigating the hardship which will be imposed upon poorer families by the impending housing shortage; (4) stimulating the construction industry by creating the equivalent of five years continuous employment for 590,000 men (estimated 4,266,800,000 man-hours); (5) creating a research organization to study materials and methods for producing low-cost housing; the benefits of such study to be available on an impartial basis to public and private bodies alike; and (6) coordinating the program with the work of other agencies now engaged in fields of rural housing, refinancing of distressed home owners, or the guarantee of loans for modernization and new construction, in order that there may be helpful cooperation among the various Government agencies and that the Division's program will meet a vital need without invading a field in which private enterprise can and should function.

The Program

The basic housing problem confronting the country is attributable to a need for slum clearance and low-cost housing which never has been met and cannot be met except by a new method of providing housing. The problem is at present aggravated by an impending severe housing shortage and the absence of incentive sufficient to induce private profit-seeking enterprise to build even in a price field which is far above that of justifiable Government operation.

Conservative estimates based on computation by the Department of Labor, the Real Property Inventory of the Department of Commerce, and the Division of Economic Research of the National Recovery

Administration indicate a need of 4,837,000 dwelling units composed of 1,362,000 required immediately and an additional 695,000 required each year for five years.

Evidence of both interest and need is indicated by over 500 limited dividend project applications on file with the Housing Division, amounting to over \$1,000,000,000, and requests from public and semi-public sponsoring groups without encouragement from the Housing Division for over \$200,000,000 of direct Federal projects in excess of the \$150,000,000 which has been made available to the Division.

Organization To Handle Program

The Housing Division has a working organization which can be quickly expanded and decentralized sufficiently to handle the proposed program. Much basic information regarding cities in which projects are contemplated is now available. Well-formulated projects ready to be inaugurated are also on hand.

Prerequisite to actual realization of the proposed program is Congressional action to establish the Public Works Emergency Housing Corporation on a sound and broad base or the creation of another adequate agency in its place. As supplementary to such action State legislation should be passed to enable the Corporation to act in its intended capacity in any State.

Coordination

The program presented by the Housing Division does not attempt to include the fields of rural housing, refinancing of distressed

home owners, or the guarantee of loans by private enterprise for the purpose of modernization and new construction. Its efforts are limited primarily and initially to providing in urban centers housing for the income group for whom ownership is now either unwise or impossible and who cannot secure housing except by the operation of non-profit and Government aided projects. The program therefore meets a vital need without invading a field in which private enterprise can and should be interested. It will result in the definition of the fields of Government and private enterprise and the elimination of the fear of unjust competition.

Financial Policy

Inasmuch as the employment created by the program will reduce relief expenditures, and since only with considerable Government aid can satisfactory housing be produced at a rental commensurate with the present need, it is recommended that a basic policy of a sixty-year maximum amortization, low interest, and grant be adopted for all non-profit projects under public or semi-public sponsorship. The grant could be considered a distribution of a minimized relief cost over a long period of years.

A maximum sixty-year period of amortization is justified by (1) erection of sound fireproof structures; (2) the periodic replacement of mechanical equipment during the period of amortization provided for in the operating cost; (3) constant responsible management to insure adequate repairs; and (4) location and size of projects which factors minimize the danger of blight by exterior influences.

Form, Scope And Schedule Of Program

The program will include both slum clearance and construction on vacant land. It will include projects (1) financed and built by the Housing Division directly; (2) financed by the Housing Division and built by local public housing authorities; and (3) financed in part by the Housing Division and built by private organizations. Under private projects will be included various forms such as limited dividend corporations, and cooperatives.

Preliminary estimates contemplate construction in some 400 cities of about 25,000 population or over. As the program is developed it should be extended to smaller cities. The construction of a total of 1,390,000 at an average cost of \$3,500 per unit including land, would amount to an expenditure of \$4,875,000,000. This much housing would provide for about two thirds of the present shortage of low-cost housing and in addition would supply about one third of the total normal need occurring during the five-year period.

Studies of housing shortages in the past definitely show that effective stimulation of new construction lags so far behind the development of a shortage that an adequate supply of dwellings is never produced in time to forestall exorbitant rents. Furthermore, when the building industry gets under way it overbuilds to an extent equal to the shortage. It is therefore proposed that the Housing Division inaugurate its program during the first stages of the shortage and diminish its efforts as a normal level is reached.

Direct Federal projects will constitute the bulk of construction in the initial stages of the program, while projects under local public authorities and private sponsors are being developed. The extent to which local enabling legislation is secured will determine largely the distribution of work between direct Federal projects and projects by local authorities.

Research

Hand in hand with the Division's construction and supervisory activities should go the development of a research organization to develop methods of producing low-cost housing. Its activities should include plans for construction and observation of various sample types of dwellings under actual conditions of occupancy, as well as laboratory investigation of various building materials and methods. The results of all investigations and findings should be made available to public and private agencies alike.

Recommended Schedule of Expenditures

| Year and Month | Direct Federal Construction | Sponsored and Constructed by Local Authorities | Sponsored and Constructed by Private Bodies | Total | Money Expended | Man-Hours Employment Created |
|------------------|-----------------------------|--|---|---------------|-----------------|------------------------------|
| 1st Year | | | | | | |
| March - June | \$65,000,000 | \$25,000,000 | \$13,000,000 | \$103,000,000 | **\$125,000,000 | ** 120,000,000 |
| July - October | 195,000,000 | 79,000,000 | 39,000,000 | 313,000,000 | 383,000,000 | 335,500,000 |
| Nov. - February | 240,000,000 | 96,000,000 | 48,000,000 | 384,000,000 | 410,000,000 | 359,100,000 |
| March - June | 280,000,000 | 120,000,000 | 60,000,000 | 460,000,000 | 457,000,000 | 400,000,000 |
| *Total 1st Year | 780,000,000 | 320,000,000 | 160,000,000 | 1,260,000,000 | 1,250,000,000 | 1,095,000,000 |
| 2nd Year | 320,000,000 | 400,000,000 | 200,000,000 | 920,000,000 | 915,000,000 | 800,000,000 |
| 3rd Year | 300,000,000 | 500,000,000 | 300,000,000 | 1,100,000,000 | 1,130,000,000 | 991,800,000 |
| 4th Year | 100,000,000 | 500,000,000 | 300,000,000 | 900,000,000 | 891,000,000 | 780,000,000 |
| 5th Year | | 355,000,000 | 340,000,000 | 695,000,000 | 689,000,000 | 600,000,000 |
| Total of 5 Years | 1,500,000,000 | 2,075,000,000 | 1,300,000,000 | 4,875,000,000 | 4,875,000,000 | 4,266,800,000 |

*First year of 5 year program contains 16 months to conform with Government Fiscal Year ending June 30, 1936.

**These figures not included in totals. During months thus marked employment will be limited mainly to planning, land acquisition, and demolition. These figures represent employment created by the present \$150,000,000 program and will fill this interim between the present and new program.

Employment Created by a \$4,875,000,000 Program

| | Money Expended | Man-Hours |
|--|-----------------|---------------|
| Building Trades Skilled and Unskilled | \$1,556,000,000 | 1,546,000,000 |
| Supervision, Administration, Engineering | 246,000,000 | 302,800,000 |
| Fabrication of Materials and Equipment | 861,000,000 | 1,629,000,000 |
| Production of Raw Materials | 287,000,000 | 505,000,000 |
| Transportation of Building Materials | 164,000,000 | 284,000,000 |
| Totals | \$3,114,000,000 | 4,266,800,000 |

IV

SUBSISTENCE HOMESTEADS

An expanded program is recommended providing for sufficient funds to make the total appropriation for subsistence homesteading \$225,000,000 over a five-year period. Such a program will assist in the decentralization of industry and will combine economic soundness with service to a class unable to obtain assistance from private sources. The proposed \$225,000,000 will furnish individual homesteads for about 50,000 families with annual incomes ranging from \$600 to \$1,200 each. The program is based on the demand for subsistence homesteads, on the estimated ability to make intelligent expenditure of available funds, and on the anticipated ability of prospective homesteaders to liquidate loans made to them. The Division's fifteen months' experience in the field of organization and the expenditure of funds and in determining the ability of persons of a low-income class to pay out, all point to a sum in the neighborhood of \$225,000,000 as the maximum which can be efficiently spent over a five-year period.

Size of Program

The recommendation as to amount has been based on: the demand for subsistence homesteads, the estimated ability to make expenditure of available funds, and the anticipated ability of efficient homesteaders to liquidate their loans.

Requests for subsistence homesteads calling for some five billions of dollars have come to the Division of Subsistence Homesteads during the past fifteen months; approximately ten percent of these requests appeared worthy of consideration. Inquiries concerning individual homesteads have totaled more than 500,000. Actual applications number nearly 25,000.

This popular response indicates a demand for several times

the number of homesteads which could be constructed with \$225,000,000. But the necessity of building up an administrative organization; the time required to guarantee that projects shall be socially and economically sound; and the concern which must be given to the selection of homesteaders able to pay their way and ready to work their way. All these factors dictate a reasonable limitation.

Social Aspects

The field of housing and homesteading may properly be divided into three categories, according to the population group to be accommodated:

1. For persons without income, presumably on relief.
2. For persons of the low-income group, that is, with annual incomes of from \$600 to \$1,200, especially those part-time or seasonally employed.
3. For persons with annual incomes of more than \$1,200.

The Division of Subsistence Homesteads believes that it can best capitalize its experience, and can perform the most significant public service, by concentrating upon projects for the accommodation of the second group.

Families with yearly incomes ranging from \$600 to \$1,200 cannot obtain private credit for the purchase of a house and land. They maintain a precarious balance on the border line of relief. The majority are now living in sub-standard houses, the cast-offs

of the more fortunate. Estimates place the need for housing by members of the low-income group in areas contiguous to urban centers at 75,000 dwellings per year.

Government assistance of some sort is necessary if these people are ever to enjoy decent homes.

Subsistence homesteading will answer the needs of a large proportion of the low-income class. At the same time that it provides such families with decent houses and a higher standard of living, it offers them a way of livelihood aptly suited to their circumstances of employment. It not only removes them from the present danger of going on relief but it erects a bulwark between them and the want of some future depression.

Subsistence homesteading, moreover, may be conducted according to a plan such as the one herein described, which will both preserve the independence and self-respect of the homesteader and conserve the funds of the Federal treasury. So far as its benefits would directly touch the individual, the proposed program would require homesteaders to repay moneys advanced at a rate of interest approximating that which the Government must pay for its funds. Such a program, therefore, would furnish a method of rehabilitation at a cost lower than by any other similar means. Nor, in figuring cost to the Government, should the fact be neglected, that placing low-income families on homesteads means preventing their addition to the roll of families on relief.

Types of Projects

The guiding principle in setting up such a program as is here suggested will be the possession of a small income by the prospective homesteaders. This means that the program must be closely tied to industry.

The program, therefore, would concentrate on an industrial type of project. At least 70% of the expenditures would be planned for workingmen's garden homes, probably with not more than an acre or so of ground, in localities adjacent to industrial centers and industrial areas. The outstanding examples of the decentralization of industry for the past thirty years have been in the thirty-three industrial areas of the United States, within and about cities having a population of less than one hundred thousand persons.

A development of the industrial garden type of project would be in the nature of a cooperative project with small individually held homesteads, but with communal lands for heavier farming and dairying, and cooperative enterprises such as factories, stores and similar enterprises.

The program would also include projects for persons with small fixed incomes. Many persons over-age for industrial employment draw from pensions, savings, or annuities an income insufficient to keep them off the relief rolls while they live in a Northern city, but large enough to maintain them in comparative comfort could they be supplied with a homestead in the South. Homesteads

for such persons would be in keeping with the movement for old age pensions. It is thought, moreover, that Northern States, in the interest of economy, might cooperate in transferring some of their indigent citizens to Southern homesteads where public funds necessary for their support would be smaller than at home. World War veterans drawing Federal benefits would fall into this class of prospective homesteaders. It should be emphasized that the movement of such persons from one region to another would, of course, be entirely voluntary on their part.

The program would continue to deal with the problem of industrially stranded groups, but the establishment of projects for this class of persons would necessarily awake the expansion of industry. It would be contemplated, however, to have as an important section of the program a continued activity to encourage the cooperation of industry, and particularly its decentralization. As fast as industry indicated its willingness to cooperate and its ability to expand, projects for stranded groups and for persons now on relief would be established.

Similarly dependent upon the ability of industry to provide employment would be projects for the industrially handicapped and to accommodate the large number of persons who have been dammed up on the farms during the depression.

Financial Aspects

In the expenditure of the suggested appropriation, we believe that a distinction properly may be made between funds spent for the benefit of individuals and those spent primarily for the benefit of the public.

We divide, therefore, the proposed expenditures into a 90% on which a return of principal plus interest would be made, and a 10% which would be wholly expendable.

The latter portion would be intended to cover Washington overhead, and those overhead costs in the field which would not occur in a similar enterprise, undertaken privately. Such field expenditures would cover supervisory health and educational services, and experimentation and research, the results of which would be calculated to benefit not only the immediate program but would create a basis for the future development of the subsistence homesteads movement. The figure of 10% for such services is based upon the experience of the Division.

The remaining 90% of the fund would be divided into four categories: capital charges; taxable items, that is, for materials and services commonly paid for through taxation; self-liquidating items, such as cooperative farms and stores; and a contingent account to cover insurance, vacancies, and repossessions.

Capital charges would be amortized over thirty to thirty-five years at 3% interest, and charged directly to the homesteader, either

as purchase payments or as rent. In the case of taxable items, the homesteader would pay to the agency furnishing the services, whether Federal, State, or local, a cash sum in lieu of and equivalent to the taxes paid by other persons in the community. While Federal property is exempt from State and local taxation, it is considered both wise and fair that homesteaders should pay the equivalent of taxes. To do otherwise would set homesteaders apart as a privileged class, while taking property out of taxation and at the same time bringing new persons into a community, would increase the tax load on others in the community and would soon result in such popular resentment as to embarrass the entire subsistence homesteads movement. Self-liquidating items would be charged to the enterprise created by the loan, on terms calling for an amortization period of not more than thirty years, at an interest of not less than 3%. The contingent account would be charged to the homesteaders on the same terms as capital charges.

Employment Provided

The program would provide an estimated 262,163,189 man-hours of labor - 136,904,351 man-hours of direct and 125,258,838 man-hours of indirect.

Out of the total man-hours of direct labor, 57,496,226 man-hours would fall to workers in the unskilled group. This labor might well be provided by persons now on relief. Necessary skilled labor would come in large part from union ranks and would thereby give to the labor organizations their share of the Federal funds expended.

RAILROADS

Loans to railroads in 1934 by the Public Works Administration aggregated \$193,531,500. It is estimated that in 1935 under liberalized terms \$310,000,000 in loans would be taken by the railroads for maintenance and equipment. Terms suggested are (1) no interest for the first three years; (2) entire loan to be repaid in 15 years, payment of principal to begin in the third year; and (3) security to be in the form of junior bonds or receiver's certificates. It is not expected that loans would be necessary after the first year, if the enlarged Public Works Program should increase industrial production to the levels of predepression years. Under these conditions railroads would be able to finance current and deferred maintenance out of earnings, and the purchase of new equipment could be privately financed.

Railroad Loans in 1934

Loans to railroads which were authorized in 1934 as a part of the Public Works Program have aggregated \$193,531,500. There will have been paid to the railroads to December 1, 1934, on account of these loans \$133,167,000, and it is estimated that a total of \$145,000,000, or 75 percent of the loans authorized will have been paid by the end of the current year. These loans were authorized to aid in financing the following projects:

| | | |
|---------------------------------|-------------------|---------------|
| Pennsylvania electrification | | \$45,000,000 |
| Other repairs and improvements: | | |
| Roadway | \$32,076,000 | |
| Equipment | <u>27,386,000</u> | 59,462,000 |
| New and reconstructed equipment | | 89,069,500 |
| Total loans authorized | | \$193,531,500 |

The estimated man-hours of direct labor amounted to 92,102,000.

Estimated Loans for 1935

It is estimated loans to railroads could be made in 1935, if the terms of the maintenance loans are liberalized as hereinafter suggested, in a total of \$310,000,000, for maintenance \$260,000,000 and equipment \$50,000,000.

Deferred Maintenance Loans

In order to increase employment quickly, which is the purpose of these loans, the maintenance work financed by Public Works Administration loans should represent deferred maintenance which the railroad in question wishes to make up in addition to the minimum current maintenance required in the operation of the railroad under present traffic conditions.

If these loans were used to finance current maintenance they might prevent receivership or further unemployment, but they would not cause a substantial increase in employment.

The amount of deferred maintenance that could be financed would depend upon the terms of the loans. The outside amount is probably represented by the excess of 1931 expenditures over 1933 expenditures; namely, \$362,180,000, as shown by the following table:

| | Class I Railroads | | |
|--------------------------------------|-------------------|-----------------|--------------------------|
| | 1931 | 1933 | Excess 1931 Over 1933 |
| Total Revenues | \$4,188,343,244 | \$3,095,403,904 | \$1,092,939,340 |
| Repairs to Roadway and Structures | 453,960,000 | 271,642,000 | 182,318,000 |
| Repairs to Equipment | 549,613,000 | 369,751,000 | 179,862,000 |
| Total Repairs | \$1,003,573,000 | \$641,393,000 | \$362,180,000 |

The expenditures in 1933 indicate the minimum expenditures for maintenance that may be expected of the railroads in 1935 under present traffic conditions and without financial aid; while the expenditures in 1931 indicate the maximum expenditures that could be expected under the same traffic conditions with Federal financial aid extended on liberal terms. The difference, \$362,180,000, represents the total amount of deferred maintenance which might be financed by Federal aid in 1935. If earnings returned to 1931 levels the railroads might be expected to spend what they did in 1931 without resort to Federal aid.

To encourage the roads to come in for these deferred maintenance loans under present traffic conditions, however, very liberal terms as to security must be allowed. Otherwise, most of the railroads would prefer to go along for another year making minimum maintenance expenditures out of current earnings and catch up on their deferred maintenance if and when they can pay for it out of unearned current earnings.

Estimated Deferred Maintenance Loans for 1935

From a study of the repair accounts in 1931 and 1933, an analysis of rail and tie renewals in recent years, and the present bad-order equipment situation, it is apparent that the total loans to make up deferred maintenance in 1935 would not exceed \$260,000,000, as follows:

Roadway Repairs

| | | |
|--|-------------------|---------------|
| 850,000 tons of rail, including fastenings and labor application | \$60,000,000 | |
| 40,000,000 cross-ties, including treatment and labor application | 70,000,000 | |
| Other roadway repairs and construction | <u>20,000,000</u> | |
| Total Roadway Repairs | | \$150,000,000 |

Equipment Repairs

| | | |
|---|-------------------|----------------------|
| Locomotives | \$50,000,000 | |
| Freight Cars | 40,000,000 | |
| Passenger Train Cars (including air-conditioning) | <u>20,000,000</u> | |
| Total Equipment Repairs | | <u>\$110,000,000</u> |
| Total Deferred Maintenance Loans | | \$260,000,000 |

Equipment Loans for 1935

These loans can usually be reasonably secured on the equipment itself. In estimating the possible loans to the railroads for equipment for 1935 and subsequent years, therefore, the question is not one of security for the loans but of the demand for such equipment. While much of the railroad equipment now in service is obsolete and should be replaced, several recent developments will make the railroads reluctant to commit themselves to extensive purchase of standard equipment at this time.

These developments are: (1) The use of the Diesel locomotive for road service as well as switching service; (2) The prospective pooling of box cars; and (3) Recent successful tests of fast Diesel-

powered streamline passenger trains with light passenger car equipment.

In view of these uncertainties the construction of new equipment in 1935 that could be financed by Federal loans will not exceed \$50,000,000, and this amount would not be substantially increased by more liberal terms.

An estimate of the kind of equipment that might be purchased or constructed by the railroads is given below:

| Number of Units | New Equipment | Total Cost |
|---------------------|----------------|--------------|
| 100 | Locomotives | \$10,000,000 |
| 10,000 | Freight Cars | 25,000,000 |
| 500 | Passenger Cars | 15,000,000 |
| Total New Equipment | | \$50,000,000 |

It is estimated that the Public Works Program under consideration should increase industrial production to the levels of pre-depression years. If this occurs, railroad revenues should approximate the levels shown on the chart. Under these conditions the railroads will be able to finance current and deferred maintenance out of earnings and will not have to borrow from the Government for this purpose. Furthermore, their credit will be improved to such an extent that purchase of new equipment can be privately financed. Consequently, it is estimated that no loans will be made to the railroads for maintenance or new equipment during the last four years of the five-year Public Works Program.

Security

The following terms are suggested with the realization that in the event of a receivership the position of the Government would only be ahead of the preferred stock:

- Interest - Free for first three years of loan.
- Repayment of Principal - To begin in third year of loan; entire loan to be repaid in 15 years.
- Security - Junior bonds or Receiver's Certificates.

VI

GRADE CROSSINGS

The consensus of opinion is that railroad grade-crossing elimination is a highly useful undertaking which might well be included in a large scale Public Works Program. Undoubtedly this proposed work is socially one of the most useful undertakings which could be launched under Federal auspices. It would contribute greatly toward public safety, and effect substantial long range economies both direct and indirect. Lighter, faster and more frequent passenger and freight-trains are definitely predicted, and with their advent, the grade-crossing menace will become increasingly serious.

The problem is largely one of finance, and the size of the program will depend upon the ability to finance. While in the past it has been customary for the railroads to pay part of the cost of this work, to accomplish a comprehensive program at this time would be impossible, unless a grant of 100% of the cost of such work be made - the railroads to furnish the necessary rights of way free of cost, and also the cost of engineering supervision.

It is recommended that elimination of railroad grade-crossings be included in this program, and a sum of \$800,000,000 allocated for this purpose.

VII

RURAL ELECTRIFICATION

Only a small percentage of the farms of the United States are equipped with electricity. The several rural electrification surveys that have been made in different sections of the United States indicate that there is an average of four potential customers to the mile. It is estimated that there are at least 1,200,000 farms that would become consumers as soon as service is available. To provide this service would require an expenditure of about \$300,000,000.

It is proposed that distribution lines be built. In some instances it may be necessary to build Diesel or water-power plants, rather than extend existing transmission systems. Such facilities could be built through the agency of a board of county commissioners, farmer cooperatives, public service corporations or by existing power companies. The cost of such construction should be amortized over a period of twenty or twenty-five years at a low rate of interest. Such projects should be self-liquidating.

Boards of county commissioners or other agencies organized as public utility corporations could borrow funds for the purpose of constructing the facilities and issue bonds against them - the cost in the end to be paid by the consumer through a monthly charge over a period of years. Operating and administrative expenses also should be paid on a monthly basis by the consumers. Another plan will provide for loans to power companies. Some form of regulation would be required to insure the rural consumer a reasonable rate.

An appropriation for the construction of distribution lines and isolated plants should be accompanied by a provision for assisting rural consumers in securing the necessary service lines, fixtures and appliances. Lighting only, is not a satisfactory objective for rural electrification. Installation and use of adequate appliances are needed. The cost of these items usually exceeds the charge to the user for the distribution line.

An allocation of \$200,000,000 for the first year, and \$100,000,000 for the second year is recommended for a program of rural electrification.

VIII

FEDERAL PROJECTS

In order to provide a comprehensive construction program of a large volume it will be necessary to continue the construction of Federal projects during the fiscal year 1936 on an expanded scale. If an expenditure in excess of normal is made during that period, succeeding years should show a reduction of the Federal program to a level substantially below normal. Pending before this Administration are requests from the various construction agencies of the Government totaling approximately \$1,833,000,000. An analysis of these requests indicates that a program of \$850,000,000 for the first year is economically sound. For the second year \$450,000,000 is recommended and for the three remaining years of a 5-year program \$250,000,000 each year.

Present Program

The operation of the Public Works Administration has made possible for the first time in the history of the United States a coordinated Federal Public Works Program. From the creation of this Administration in June, 1933, until the present time, slightly more than \$1,550,000,000 has been allocated for Federal projects from Public Works funds. The projects included in this program were selected after the establishment of definite requirements and a careful analysis to determine their eligibility. Among the factors given consideration in the selection of each individual project in the preparation of the program were the following: - Whether the project was under construction or under contract and had to be completed if financial loss to the Government was to be avoided; whether necessary for the protection of life; for the protection of Federal property; to maintain the physical property of the Government; for

for which appropriations previously have been made by the Congress and which has been accomplished by prior Public Works allotments.

A breakdown by types of work under this program may be summarized as follows:

| | |
|-----------------------|-------------------|
| Highway construction | \$448,000,000 |
| Utilities | 19,500,000 |
| Buildings | 100,000,000 |
| Reclamation | 75,000,000 |
| Rivers and Harbors | } |
| Flood Control | |
| Water Navigation Aids | |
| Vessels | 150,000,000 |
| Agricultural Aids | 26,500,000 |
| Aviation | 9,000,000 |
| Miscellaneous | 5,000,000 |
| | <u>17,000,000</u> |
| | \$850,000,000 |

Based on Public Works Administration experience Federal construction gives almost complete geographical distribution of the work. In the Federal program financed by the 1934 and 1935 appropriations, work has been completed or is under construction in all but 36 of the 3,072 counties in the United States. The Public Works Administration, as well as the Federal construction agencies, have expanded their forces and perfected their organizations to such an extent that now it would be possible to continue the expanded Public Works program with greater facility and dispatch than has been possible during the formative period of the past eighteen months. A large majority of the projects contemplated under this program could be placed under construction within ninety days after the money becomes available and completed within one year.

Employment

It is estimated that such a program would create 4,500,000 man-months of direct employment plus a like amount of indirect employment. The estimated average number of men to be employed at the site of the work is 340,000, plus an equal number indirectly employed, or a total of 680,000 men.

Succeeding Years

During the remaining four years of a 5-year program it is recommended that \$450,000,000 per year be included for the second year, and \$250,000,000 per year for the remaining years.

Further Expansion of the Program

This program can be further expanded by adding aircraft for Army and Navy, Army motorization and mechanization, ordnance and similar projects.

IX

RESEARCH

Scientific research has not been related to the emergency programs so far sponsored by the Administration and difficulty has been encountered in attempting to provide employment for this class of workers. On the other hand, the Government's research program has been greatly curtailed in the last two years and a continuance of this policy will result in creating a gap that may never be closed. Particularly is this true with regard to research involving continuity of effort. Industry also has relaxed its endeavors along research lines. Any long term economic planning should include scientific research as a necessary feature. The many technical problems involved in a large and continuing construction program makes it imperative that studies be undertaken looking toward improvement in design and construction as well as to furnish the basic data essential to many of the projects. Technical progress will certainly lag unless the Federal Government coordinates it with the purely objective type of work provided in the proposed construction program. We are now eating up our capital of scientific knowledge developed through research and continuous use of research staffs in objective application prevents the accumulation of new principles. The rapid depletion of our natural resources also brings us closer each year to the need for this type

of work. To secure permanent value from research as a stimulus to industry it should be extended beyond the routine type of work involved in surveys and testing of materials. Russia, Great Britain, Italy, and Japan have mobilized research facilities in an effort to rehabilitate the economic position of these nations.

The Science Advisory Board has been asked to prepare a research program in the field of construction. When this is received, a more definite recommendation can be made as to the character of the program as well as a definite recommendation as to the amount of money required to carry it through.

Report on National Construction Program 1936-40

I. Preface:

1. In the preparation of the proposed program a canvass was made of all feasible avenues of Federal expenditures along construction lines on a repayable basis which would furnish the maximum of employment and economic stimulation.

2. Where the program affects private initiative, the purpose has been to have the government proceed only so far as necessary to aid business recovery.

3. It is believed that the program is sound economically if emphasis is placed upon its continuing character for at least a 5-year period.

II. Economic basis for program:

1. A government construction program involving the expenditure of 5 billion dollars per year would provide a volume of employment equal to that prevailing in the period 1925-29.

Basis of calculation: from 1925 to 1929 total dollar volume of annual construction ranged between 11 billion and 13 billion dollars. The price level now is 25 per cent lower than during that period. Therefore, it is estimated that construction amounting to $7\frac{1}{2}$ to 8 billion dollars a year would be equivalent in employment, both direct and indirect, and in real income to the higher dollar volumes of construction in the 1925-29 period. Private construction at the present time is at the rate of $2\frac{1}{2}$ to 3 billion dollars per year so that the addition of a government program of 5 billion dollars per year would bring the total construction volume up to the required figure of $7\frac{1}{2}$ to 8 billion dollars.

2. Assumes that the government program would be so carried out that it would not further undermine the privately financed construction; also assumes that over a 5-year period private construction would greatly increase as a result of improving business under the stimulus of large government expenditures.

3. The decision may be made at a later stage as to the need for maintaining a 5 billion dollar year expenditure over the whole 5-year period.

4. A 5-billion dollar annual expenditure would provide direct employment for about 2 million men per month, and indirect employment of 2 million per month - in production, transportation, and merchandising of construction materials, making a total of 4 million.

To this figure of 4 million per month must also be added so-called secondary indirect employment which is variously estimated. The amount depends on the assumptions that are made as to the proportion of the expenditure that becomes income, and the proportion of the income that is spent and not saved by the various groups of recipients all along the line. The proportion which is spent will depend in part upon the total volume of construction including that privately financed and in part upon whether the total volume of construction is rising or falling.

The present Public Works Administration programs have been relatively ineffective for two reasons: (a) the amount was too small, and (b) the duration of expenditure was too short.

III. Statistical summary:

The program provides for a total expenditure of \$21,145,000,000 over a period of 5 years. The following statistical summary shows a breakdown of this total by types of projects and also indicates the employment that may be expected from the operation of the program for each of the 5 years through 1940.

Proposed 5-Year Construction Program
by Types of Projects in Millions of Dollars

169

| | 1936 | 1937 | 1938 | 1939 | 1940 | Total |
|--------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Non-Federal projects | 2,000 | 1,500 | 1,500 | 1,500 | 1,000 | 7,500 |
| Urban Housing | 1,000 | 1,500 | 1,500 | 1,000 | 1,000 | 6,000 |
| Rural Housing | 300 | 500 | 500 | 400 | 300 | 2,000 |
| Grade Crossing | 300 | 300 | 300 | 200 | 100 | 1,200 |
| Express Highway | | 300 | 300 | 300 | 300 | 1,200 |
| Railroads | 310 | 60 | 60 | 60 | 60 | 550 |
| Rural Electrification | 200 | 100 | - | - | - | 300 |
| Federal Self-liquidating | 240 | 120 | 115 | 85 | 85 | 645 |
| Federal Projects | 550 | 550 | 550 | 550 | 550 | 2,750 |
| Totals | 4,900 | 4,930 | 4,825 | 4,095 | 3,395 | 21,145 |

Summary of Expenditures and Employment

| Year | Expenditures | Average No. Men Employed Through Year | | |
|--------------|-------------------------|---------------------------------------|-----------|-----------|
| | | Direct | Indirect | Total |
| 1936 | \$4,900,000,000 | 2,084,000 | 2,084,000 | 4,168,000 |
| 1937 | 4,930,000,000 | 2,054,000 | 2,054,000 | 4,108,000 |
| 1938 | 4,825,000,000 | 2,010,000 | 2,010,000 | 4,020,000 |
| 1939 | 4,095,000,000 | 1,707,000 | 1,707,000 | 3,414,000 |
| 1940 | 3,395,000,000 | 1,415,000 | 1,415,000 | 2,830,000 |
| Total | \$21,145,000,000 | | | |

1. Statistical summary:

| Year | Expenditures | Average No. Men Employed Through Year | | |
|-------|-----------------|---------------------------------------|----------|-----------|
| | | Direct | Indirect | Total |
| 1936 | \$2,000,000,000 | 833,000 | 833,000 | 1,666,000 |
| 1937 | 1,500,000,000 | 625,000 | 625,000 | 1,250,000 |
| 1938 | 1,500,000,000 | 625,000 | 625,000 | 1,250,000 |
| 1939 | 1,500,000,000 | 625,000 | 625,000 | 1,250,000 |
| 1940 | 1,000,000,000 | 417,000 | 417,000 | 834,000 |
| Total | \$7,500,000,000 | | | |

2. Description: Construction enterprises by states, cities, and other local government for streets, sewers, water, buildings, bridges, flood control, and power.

3. Need: The present demand is indicated by the $4\frac{1}{2}$ billion dollars of applications received by the Public Works Administration in the seven months immediately following its establishment, when the terms were only a 30 per cent grant with interest at 4 per cent on the balance. This was three times the annual expenditures in the prosperous years; also there are \$2,800,000,000 in applications, a large part of which could be favorably considered if more liberal terms were applied.

States, cities, and other local government spent approximately $7\frac{1}{2}$ billion dollars from 1925 to 1929.

Under a liberalized financing plan of no interest or a 50 per cent grant, it is estimated that during the 5-year period, the $7\frac{1}{2}$ billion dollars would be expended.

4. Time required to start program: There would be no delay in starting the program as applications could be received and handled promptly by existing state engineer offices.

5. Repayment: This is assured by the obligation of the public body obtaining the loan. (Reference is to repayment of 50% of the total amount expended.)

Urban Housing

1. Statistical summary:

| Year | Expenditures | Average No. Men Employed Through Year | | |
|--------------|------------------------|---------------------------------------|----------|-----------|
| | | Direct | Indirect | Total |
| 1936 | \$1,000,000,000 | 417,000 | 417,000 | 834,000 |
| 1937 | 1,500,000,000 | 625,000 | 625,000 | 1,250,000 |
| 1938 | 1,500,000,000 | 625,000 | 625,000 | 1,250,000 |
| 1939 | 1,000,000,000 | 417,000 | 417,000 | 834,000 |
| 1940 | 1,000,000,000 | 417,000 | 417,000 | 834,000 |
| Total | \$6,000,000,000 | | | |

2. Description: Adequate housing for the low income families, clearing and rebuilding slum areas, etc.

3. Need: The need for this type of housing for the next 5 years:

(a) Housing Division of Public Works Administration: It is estimated there is need for 4,837,000 dwelling units of the low cost and slum clearance types; 1,362,000 required immediately, and an additional 695,000 for each of the 5 years.

(b) Need is also reflected by the more than 500 limited dividend applications on file in the Housing Division, amounting to approximately 1 billion dollars, and requests from sponsoring groups

and authorities for over 2 million dollars of direct Federal housing projects in excess of the 1½ million dollars previously made available to the Division.

(c) The proposed program of a 6-billion dollar expenditure in 5 years is made up as follows: (1) \$4,875,000,000 to be expended in cities with a population of 25,000 or over, which would supply 1,390,000 units at an average cost per unit of \$3,500 inclusive of land; this figure is 28 per cent of the total estimated need of 4,837,000 units; it provides for taking care of two-thirds of immediate housing requirements, and one-third of the normal demand of the next 5 years. (2) For cities under 25,000 an additional 1¼ billion dollars is provided, making a total of 6 billion dollars.

4. Repayment: A 60-year amortization period without interest is proposed, as the employment created by the proposed housing program is expected to diminish relief expenditures, and since only with considerable government aid can satisfactory housing be produced at a rental commensurate with the present need. Private enterprise cannot produce adequate housing for the low income families, nor can it clear and rebuild slum areas without replacing low income tenants with a low moderate income group which on a large scale operation would disrupt the whole population of a city.

1. Statistical Summary:

| Year | Expenditures | Average No. Men Employed Through Year | | |
|--------------|------------------------|---------------------------------------|----------|---------|
| | | Direct | Indirect | Total |
| 1936 | \$300,000,000 | 125,000 | 125,000 | 250,000 |
| 1937 | 500,000,000 | 208,000 | 208,000 | 416,000 |
| 1938 | 500,000,000 | 208,000 | 208,000 | 416,000 |
| 1939 | 400,000,000 | 167,000 | 167,000 | 334,000 |
| 1940 | 300,000,000 | 125,000 | 125,000 | 250,000 |
| <u>Total</u> | <u>\$2,000,000,000</u> | | | |

2. Description: Rural Housing includes industrial workers' garden homesteads, projects for stranded populations, projects for Negro problem areas, projects to be wholly cooperatively owned, projects to be located in Southern States for aged and superannuated people, projects for industrially handicapped workers, particularly those handicapped through industrial injury, and projects for the resettlement of relief families.

3. Need: Estimates as to the possibilities of expenditure in the rural housing field reach a maximum of 2 billion dollars to be expended during a 2-year period, but on the basis of practicability the program here recommended carries a total of 2 billion dollars over a 5-year period. On the basis of not to exceed \$3,000 per unit, which would include land and community facilities, this expenditure would provide homesteads for approximately 800,000 families. From the number of applications received, and other studies, there is no question but that the demand would justify a program of this magnitude.

4. Time required to start program: The initial portion would comprise projects calling for an expenditure of about 800 million dollars. Immediate development of numerous projects is possible as the result of preliminary work already completed. By June 30, 1936 it would be planned to have approximately one-half of the projects in the initial group completed.

5. Repayment: Straight amortization basis over a 30-year period without interest.

Grade Crossings

1. Statistical summary:

| Year | Expenditures | Average No. Men Employed Through Year | | |
|--------------|------------------------|---------------------------------------|----------|---------|
| | | Direct | Indirect | Total |
| 1936 | \$300,000,000 | 125,000 | 125,000 | 250,000 |
| 1937 | 300,000,000 | 125,000 | 125,000 | 250,000 |
| 1938 | 300,000,000 | 125,000 | 125,000 | 250,000 |
| 1939 | 200,000,000 | 84,000 | 84,000 | 168,000 |
| 1940 | 100,000,000 | 42,000 | 42,000 | 84,000 |
| Total | \$1,200,000,000 | | | |

2. Description: This program contemplates the elimination of grade crossings on heavy duty highways and in rural areas and upon highways in general in the neighborhood of cities.

3. Need: It is estimated that at an average cost of \$100,000 for each grade crossing a total of 12,000 grade crossings could be eliminated. The program could be carried through a 5-year period at the rate of 300 million dollars per year.

4. Time required to start program: Program could be inaugurated at once and carried through a five year period.

5. Repayment: The total cost of 1,200 million dollars would be paid in 20 years by a tax of 1/2¢ per gallon on gasoline.

Express Highways

1. Statistical summary:

| Year | Expenditures | Average No. Men Employed Through Year | | |
|--------------|------------------------|---------------------------------------|----------|---------|
| | | Direct | Indirect | Total |
| 1936 | \$ 0 | | | |
| 1937 | 300,000,000 | 125,000 | 125,000 | 250,000 |
| 1938 | 300,000,000 | 125,000 | 125,000 | 250,000 |
| 1939 | 300,000,000 | 125,000 | 125,000 | 250,000 |
| 1940 | 300,000,000 | 125,000 | 125,000 | 250,000 |
| <u>Total</u> | <u>\$1,200,000,000</u> | | | |

2. Description: This project includes the work projected for high speed heavy duty highway travel, involving: (a) Sections of highways crossing urban density and difficult terrain. These structures, generally of bridge type, are a part of complete high speed highways. (b) Heavy traffic high speed roads with elimination of principal highway and rail intersections, wide turns and low percentage gradients and generally connecting with the facilities provided in (a). (c) Secondary highways of the improved type carrying heavy traffic not a part of the general state trunk systems covered in (a) and (b).

Since by present highway funds appropriated for issue January 1, 1935 and utilized during that year, the application of this new program is not contemplated until the beginning of 1936, at which time again Federal funds will become available in addition, in some amount, to this program.

3. Need: The program contemplates the construction of new highways and of the widening and improvement of existing highways. The bridge type highway construction will probably cost \$2,300,000 per mile; \$800,000 of which would go for right-of-way and produce no work. New heavy duty highway construction will probably cost \$125,000 per mile, \$25,000 of which would go for right-of-way and produce no work. Secondary type of highway construction will probably cost \$10,000 per mile with no cost for right-of-way, - this latter work would be done largely over existing right-of-way.

4. Repayment: Tolls or other local systems of revenue cannot be depended upon for any large return in this program, Revenue will be produced with a gas tax of $\frac{1}{2}$ ¢ per gallon beginning in 1935 and continuing for 20 years at that rate, estimated at 60 million dollars per year, or a total of 1,200 million dollars.

Railroads

1. Statistical summary:

| Year | Expenditures | Average No. Men employed through year | | |
|--------------|----------------------|---------------------------------------|----------|---------|
| | | Direct | Indirect | Total |
| 1936 | \$310,000,000 | 129,000 | 129,000 | 258,000 |
| 1937 | 60,000,000 | 30,000 | 30,000 | 60,000 |
| 1938 | 60,000,000 | 30,000 | 30,000 | 60,000 |
| 1939 | 60,000,000 | 30,000 | 30,000 | 60,000 |
| 1940 | 60,000,000 | 30,000 | 30,000 | 60,000 |
| Total | \$550,000,000 | | | |

2. Description: This program contemplates the expenditure of \$550,000,000 for railroad repair and maintenance, and includes an expenditure of 60 million dollars per year for 5 years for rails, including fastenings and labor, and an expenditure of 250 million dollars for the first year for roadway maintenance and new equipment.

3. Need: 22 per cent of locomotives and 15.3 per cent of freight cars of Class 1 roads reported in bad order September 1, 1934, etc.

4. Repayment: The terms of this system of loans would be on the basis of no charge for interest nor payment of principal for the first three years, amortization to begin with the fourth year and to be completed in 15 years. Security for the loan would be in the form of junior bonds or receivers' certificates.

1. Statistical summary:

| Year | Expenditures | Average Employment | | Throughout Year Total |
|--------------|----------------------|--------------------|-----------------------|--------------------------|
| | | Direct | Per Month Indirect | |
| First year | \$200,000,000 | 84,000 | 84,000 | 168,000 |
| Second year | 100,000,000 | 42,000 | 42,000 | 84,000 |
| Total | \$300,000,000 | | | |

The total employment by the expenditure of the 300 million dollars would involve 4,125,000 man months, of which 2,750,000 would be direct labor and 1,375,000 indirect labor.

2. Description: Construction of 300,000 miles of electric service lines in rural areas.

3. Need: There are at present in the United States 6,288,648 farms, of which 13.4 per cent are equipped with electricity, leaving a possible field for total rural electrification of approximately 5,447,338 farms. Of this number the present program is based on surveys which indicate that at least 1,200,000 farms are immediate potential users of electricity. These farms are so located that at the rate of four customers per mile 300,000 miles of service lines would be required. Such lines would cost not to exceed \$1,000 per mile, or a total of 300 million dollars.

4. Time required to start program: This work could be begun immediately upon inauguration of the program.

5. Repayment: The service lines could be built through the agency of boards of county commissioners, public service corporations, farmers' cooperatives, or by existing power companies. If no interest is charged, it has been estimated that a charge of \$1.05 per customer per month for twenty years would repay the entire cost of installation.

Federal Public Works Program

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Two proposals are offered (A) Self-liquidating Projects, and (B) Program of Essential Federal Public Works.

(a) Self-liquidating projects:

1. Statistical Summary:

| Year | Expenditures | Average No. Men Employed Through Year | | |
|--------------|----------------------|---------------------------------------|----------|---------|
| | | Direct | Indirect | Total |
| 1936 | \$240,000,000 | 100,000 | 100,000 | 200,000 |
| 1937 | 120,000,000 | 50,000 | 50,000 | 100,000 |
| 1938 | 115,000,000 | 48,000 | 48,000 | 96,000 |
| 1939 | 85,000,000 | 35,000 | 35,000 | 70,000 |
| 1940 | 85,000,000 | 35,000 | 35,000 | 70,000 |
| Total | \$645,000,000 | | | |

2. Description:

| | |
|----------------------|--------------|
| Highway construction | \$12,800,000 |
| Utilities | 125,000 |
| Buildings | 69,600,000 |
| Reclamation | 139,375,000 |
| Agricultural aids | 10,500,000 |
| Miscellaneous | 7,600,000 |

Total \$240,000,000

After first year expenditures are for Reclamation projects.

3. Need: Careful study has been made of the requests of each construction agency of Federal government with the view of developing a program of public works of a self-liquidating nature.

4. Time required to start program: If funds are made available by March, 1935, the 240 million dollars will be expended by the end of the calendar year, 1936, leaving only the Reclamation projects to be completed.

Repayment: Included in this program would be reclamation projects, repayable under the reclamation laws; quarters for military personnel now drawing commutation for quarters; and the elimination of obsolete buildings, the maintenance costs of which now exceed amortization charges for new buildings. An expenditure for modern tools and equipment at Navy Yards is considered self-liquidating since government-owned yards would be enabled to produce vessels at a lower cost. This would furnish to the Federal government a better yardstick by which bid prices for similar work in private yards can be measured.

Other works included as self-liquidating are certain improvements in the national forests such as fire breaks, lookout houses, towers, observatories and telephone systems. These are self-liquidating in that they would make possible better control of forest fires which in the past have caused losses in the national forest alone, in a single season, as high as \$26,000,000. The sale value of the timber which will be saved from destruction by forest fires is calculated to be greater than the estimated expenditure for such preventative methods.

(B) Essential Federal Public Works

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1. Statistical summary:

| Year | Expenditures | Average No. Men Employed Through Year | | |
|--------------|------------------------|---------------------------------------|----------|---------|
| | | Direct | Indirect | Total |
| 1936 | \$550,000,000 | 229,000 | 229,000 | 458,000 |
| 1937 | 550,000,000 | 229,000 | 229,000 | 458,000 |
| 1938 | 550,000,000 | 229,000 | 229,000 | 458,000 |
| 1939 | 550,000,000 | 229,000 | 229,000 | 458,000 |
| 1940 | 550,000,000 | 229,000 | 229,000 | 458,000 |
| Total | \$2,750,000,000 | | | |

2. Description: A careful study of the requests made to the Public Works Administration by the Federal agencies indicates that a program of essential Federal projects can be undertaken in the amount of \$1,000,000,000 for the fiscal year 1936, or so much thereof as may be determined upon in connection with any enlarged program. The type of work which is proposed for inclusion in the program is that for which appropriations have previously been made by Congress and which have been accomplished by prior public works allotments. The approval of such an expended program would make unnecessary the allocation by the Bureau of the Budget of more than \$250,000,000 now requested, for the fiscal year 1936 for public works. A breakdown of types under this program is as follows:

| | |
|-----------------------|---------------|
| Highway construction | \$448,000,000 |
| Utilities | 19,500,000 |
| Buildings | 158,350,000 |
| Reclamation | 184,215,000 |
| Water navigation aids | 214,100,000 |
| Vessels | 26,500,000 |
| Agricultural aids | 9,030,000 |
| Aviation aids | 5,250,000 |
| Miscellaneous | 17,555,000 |

Total \$1,077,500,000

3. Need: Included in the proposed Public Works Administration program are projects which can be justified from an economical standpoint.

4. Repayment: (Presumably are direct Federal expense.) There is included in this program 250 million dollars per year, which is equivalent to the government's regular expenditure for construction over a term of years, and 300 million dollars annually for CCC camps, making a total of 550 million dollars per year.

Program of National Resources Board

1. Statistical summary:

| Year | Expenditures Total | National Resources Board | Coast and Geodetic Survey | Geological Survey |
|------|-----------------------|--------------------------------|---------------------------------|----------------------|
| 1936 | \$20,500,000 | \$12,000,000 | \$3,500,000 | \$5,000,000 |
| 1937 | 20,500,000 | 12,000,000 | 3,500,000 | 5,000,000 |
| 1938 | 20,500,000 | 12,000,000 | 3,500,000 | 5,000,000 |
| 1939 | 20,500,000 | 12,000,000 | 3,500,000 | 5,000,000 |
| 1940 | 20,500,000 | 12,000,000 | 3,500,000 | 5,000,000 |
| | <u>\$102,500,000</u> | <u>\$60,000,000</u> | <u>\$17,500,000</u> | <u>\$25,000,000</u> |

2. Need: It is absolutely necessary to carry out the plans of the National Resources Board that there be a budget sufficient to take care of engineering, to select water and drainage area projects, and to make available the basis information throughout the country necessary for the surveys by the Board. The Geological Survey and the Coast and Geodetic Survey should have sufficient funds to do the base work over the entire country.

| | : Total : amount : (millions : of : dollars) | : Per cent : self- : liquidating : assuming no : defaults | : Amount : liquidated, : assuming no : defaults : (millions of : dollars) | : Estimated per : cent liquida- : tion with : allowance : for some : defaults | : Amount : liquidated, : assuming some : defaults : (millions of : dollars) |
|--|--|---|--|--|--|
|--|--|---|--|--|--|

1. Non-Federal Projects:

A 50 per cent grant is equivalent to an amortized loan of 52 years without interest, assuming a 3% rate; at 4%, 41 years. In addition some allowance would also have to be made for defaults.

| | | | | | |
|--|-------|----|-------|----|-------|
| | 7,500 | 50 | 3,750 | 50 | 3,750 |
|--|-------|----|-------|----|-------|

2. Urban Housing:

A 60 year amortized loan without interest would give a return of 46.1%, assuming a 3% rate. If payments are collected for only 40 of the 60 years, the return is equal to 38.5%. Additional losses will result from failures to pay principal. Other losses will occur through selection of poor location, etc.

| | | | | | |
|--|-------|------|-------|------|-------|
| | 6,000 | 46.1 | 2,766 | 38.5 | 2,310 |
|--|-------|------|-------|------|-------|

3. Rural Housing:

A 30 year amortized loan without interest would give a return of 65.3%, assuming a 3% rate. If payments are collected for only 20 years of the 30 years the return is equal to 49.6%. The projects are for most part experimental and it is difficult to estimate losses resulting from the unsuccessful ventures

| | | | | | |
|--|-------|------|-------|------|-----|
| | 2,000 | 65.3 | 1,306 | 49.6 | 992 |
|--|-------|------|-------|------|-----|

4. Grade Crossings:

| | | | | | |
|--|-------|------|------|------|------|
| | 1,200 | none | none | none | none |
|--|-------|------|------|------|------|

Express Highways:

| | | | | | |
|--|-------|------|------|------|------|
| | 1,200 | none | none | none | none |
|--|-------|------|------|------|------|

5. Railroads:

A waiver of 3% for 3 years is equal to 91.5% return. If no interest is paid and no principal until 4th year, the return is equal to 72.8%. Subsidy is probably not large enough to induce borrowing of the amount indicated.

| | | | | | |
|--|-----|------|--------|------|--------|
| | 550 | 91.5 | 503.25 | 86.5 | 475.75 |
|--|-----|------|--------|------|--------|

6. Rural Electrification:

A 20 year amortized loan without interest is equal to 74.4% return assuming a 3% return.

| | | | | | |
|--|-----|------|--------|------|--------|
| | 500 | 74.4 | 225.20 | 74.4 | 223.20 |
|--|-----|------|--------|------|--------|

7. Federal Self-liquidating:

| | | | | | |
|--|-----|------|------|------|------|
| | 645 | none | none | none | none |
|--|-----|------|------|------|------|

8. Federal Projects:

| | | | | | |
|--|---------------------|------|------|------|------|
| | 2,750 ^{1/} | none | none | none | none |
|--|---------------------|------|------|------|------|

| | | | | | |
|------------|--------|------|----------|------|----------|
| Total..... | 22,145 | 38.6 | 8,548.45 | 35.0 | 7,750.95 |
|------------|--------|------|----------|------|----------|

^{1/}This figure includes 250 million dollars per year or 1,250 million dollars which is equivalent to the government's regular expenditures for construction over a term of years.