

FEDERAL RESERVE BANK
Of New York

169

OFFICE CORRESPONDENCE

Date April 9, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with

From J. E. Crane

Mr. Cariguel of the Bank of France.

In accordance with telephone request from Secretary Morgenthau this morning I telephoned to Mr. Cariguel at the Bank of France this afternoon to give him a message from the Secretary, the substance of which was as follows:

"The Secretary has just heard that the situation at St. Pierre has been attended to, he is delighted at the outcome and wants the French to know how he feels about it and that he is anxious to cooperate closely with them. If he can be helpful in any way the Secretary would like to know about it and if the dollar rate in Paris should go too high and the private banks not take gold fast enough, he is willing to have the Bank of France sell up to \$5,000,000 at 6.58 or better."

Mr. Cariguel said that he was delighted to get Secretary Morgenthau's message, that he would pass it along to the Governor of the Banque de France and that, with respect to the order to sell up to \$5,000,000, he appreciated the offer very much although he pointed out that there was no occasion at the present time to make use of it since the dollar was below gold export point in Paris.

I asked Mr. Cariguel about the exchange market and he replied that it had been quieter today although both the Swiss and Dutch exchanges were under pressure. He said that Switzerland was the weaker of the two countries and that it looked as though Governor Bachmann's morale was deteriorating. On the other hand, he said that Governor Trip seemed to be determined to hold on and had today made a further increase of 1 per cent in his bank rate. Mr. Cariguel said he anticipated that the Swiss would be the first to go, that he did not know how long they would be able to hold out and that for the time being he expected a lull in the exchange situation.

JEC:KMC

April 9, 1935.
Tuesday.

H.M.Jr: Morgenthau.

Mayor
LaGuardia: Good morning, Mr. Secretary.

H.M.Jr: How are you?

La G: Fine.

H.M.Jr: I think you got a good man in that man Arthur Couse.

LaG: Yes, you know him?

H.M.Jr: Yes.

LaG: Yes, I think so and he's very excited about taking a banker's job because, you know, all this criticism is just - there's nothing real or serious about the whole thing.

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

LaG: - and they haven't been able to discover one penny that's been stolen or grafted.

H.M.Jr: Good. Mr. Mayor, I have the Consolidated Gas contract before me -

LaG: Yes.

H.M.Jr: Now, I want to tell you that three provisions which are in it are very short, and I'll read them over to you, I mean there's twelve, thirteen and fourteen: 12. By entering into a contract on the basis of this bid, the government shall in no way be deemed to agree to defer temporarily or permanently the construction of a governmental owned and operated plant in the general ration of electric power. 13. The bidder conceived at the rates herein specified are reasonable they are adequate to cover the cost of the service proposed to be rendered, plus a reasonable profit. 14. The books of the bidder shall be opened at all times for representatives of the Federal government of the State of New York of the City of New York to permit determination of relations of rates charged by the government to rates charged by the bidder to its other consumer.

LaG: Yes.

H.M.Jr: Now those are - that's all in the contract.

LaG: Yes, Now, Mr. Secretary, I tried to get you last week, you know.

H.M.Jr: Well, I was away.

LaG: Yes. Now, I have in my pocket - I've been carrying it in my pocket - what is tantamount to the city -

H.M.Jr: Yes.

LaG: - it's about the same rate that the government has obtained.

H.M.Jr: Yes.

LaG: Now, we're negotiating - been trying to get some - thing for the consumer,

H.M.Jr: Yes.

LaG: - because what I'm afraid of is that after the first flush of victory is passed that the contention will be made that because of concessions made to the Federal and City Government, it will have to be taken out of the consumer.

H.M.Jr: Well, you see we've got that question in there about reasonable profit.

LaG: Yes.

H.M.Jr: You see?

LaG: Yes, well, that's good. Now -

H.M.Jr: I mean, that clause in there - reasonable profit.

LaG: Yes. Now, Mr. Morgenthau, I'll be in Washington Thursday and Friday -

H.M.Jr: Yes.

LaG: - and I thought this - and I talked it over with the President I should think that when the turns up with them, it ought to be in Washington in order to give the company the feeling that is keeping with the President's policy of cheap power rates.

H.M.Jr: What is your idea - we sign up at the same time?

LaG: Yes. I think it would be very helpful to -

H.M.Jr: Well, will you be ready to talk by Thursday?

LaG: Oh, I'll be ready to talk by Thursday and I think we ought to be able to do it early next week.

H.M.Jr: Well, will you come in and see me?

LaG: I'll come in and see you Thursday if that's convenient, or Friday morning.

H.M.Jr: Well - which - which -

LaG: Well, you see my first meeting is with the Mayor; and suppose I give you a phone call Thursday morning as soon as I know what their schedule is.

H.M.Jr: Well, why don't I say tentatively ten o'clock Friday.

LaG: Ten o'clock Friday.

H.M.Jr: Yes.

LaG: I think that would be absolutely all right. Of course, unless we go to the White House, that's o.k.

H.M.Jr: Well, let's see, if I don't hear from you -

LaG: That's right.

H.M.Jr: - again, it'll be ten o'clock Friday.

LaG: Ten o'clock Friday

H.M.Jr: All right, sir.

LaG: All right. Thank you.

H.M.Jr: Goodbye.

April 9, 1935.
Tuesday.

H.M.Jr: Mr. Vice-President?

Garner: Yes.

H.M.Jr: Henry talking, Henry Morgenthau.

G: Yes. How are you, Henry?

H.M.Jr: I'm all right. I want a little advice.

G: All right.

H.M.Jr: We're working on our refunding of the Liberties and I just wondered what the chances are on this bonus coming up this month.

G: This month?

H.M.Jr: Yes.

G: Let's see, what day of the month is this?

H.M.Jr: This is the ninth.

G: Well, it might do it, Henry. That damn thing's got a lot of strength down in the Senate, and they might do it to finance the committee to consider it with the - promise that we made - made them make was that they wouldn't report it until the President got back.

H.M.Jr: Well, do you suppose the Senate is - will keep the paper money feature in the House bill?

G: Well, now I don't know, Henry, about that. It's pretty damn hard to tell what the Senate's going to do with the rest of that bill. They never have been checked yet and I don't believe anybody can give you a definite statement, though my impression is that they will defeat this.

H.M.Jr: Well, you see, I've got to make up my mind; I don't know whether it's better to say go ahead with it and have that thing in the progress or to wait and see what happens. I don't know.

G: Well, damn if I can - it's a guess, Henry.

H.M.Jr: Of course, what I've done up to now is - I've just gone ahead regardless.

G: Well, I think I would - I - but, I say it's a

guess. Now, there's no use - nobody can tell you definitely, old top. My guess is that they're going to fix that printed money for the bankers and they're going to pass some kind of a bonus bill.

H.M.Jr: Well, you think -

G: - and they have organized in the Senate for the purpose of accepting the Patman amendment.

H.M.Jr: Do you suppose if there was a big refunding in the progress from the fifteenth of April on that would have any effect on the Hill?

G: No, I don't doubt it - I - dammit, I don't think anything's happened except those soldiers and the cross currencies they've got.

H.M.Jr: Yes. Well, I guess the best thing to do is to do what I've always done and just go ahead -

G: Yes, go ahead and don't you pay a damn bit attention to what Congress is doing.

H.M.Jr: Well, that's - that's what I'll do.

G: That's about the size of it, Henry.

H.M.Jr: Well, thanks.

G: All right.

H.M.Jr: Thank you.

G: Goodbye.

April 9th

H. M. Jr. called Steve Early and told him that on April 15th we will call the last of the Liberties, which means that we will have called 8 billion dollars in a little over a year. He told him that he wants to make a radio speech and announce that we have passed a milestone in history.

* * * * *

H.M.Jr. called Secretary Hull and said that he wanted to offer the Bank of France 5 million dollars in case the Franc should drop at any time; that they could use it for us in case it got below the gold point. H.M.Jr. wanted to do this as a friendly gesture. He also told Mr. Hull that when he thought it a good time to talk to the French Ambassador he (H. M. Jr.) would do so.

* * * * *

H.M.Jr. called Joe Kennedy and asked him how many more private flotations there were coming along, as we wanted to figure out when we are going to do our next refunding. H.M.Jr. wanted to take this into consideration because he wanted to give private concerns consideration. He wanted to know how much was actually going to be offered to the public between the 15th of April and May 1st.

April 9th

171

H.M.Jr. called General MacArthur to-day and reminded him that he had told H. M. Jr. that North Island was going to be fixed up and that Admiral Peoples had just informed him that there was no place for Coast Guard on North Island; that there seems to be some red tape and that the Army was holding us up. He also told General MacArthur that he was sending over correspondence between the Procurement Division and Secretary Dern. The letters are attached herewith.

April 2, 1935

The Honorable
The Secretary of War

Sir:

I have the honor to refer to letter addressed to you dated March 6, 1935, signed by the Secretary of the Treasury, requesting the transfer, to the Treasury Department, of certain land under the control of the War Department at North Island, San Diego, California, reply to which has not been received.

In letter dated March 19, 1935, the Director of Procurement, Treasury Department, requested a contour plat showing the physical conditions of the land in question in order that plans for the proposed Coast Guard Air Station may be completed without delay. No reply to this request has been received to date.

In view of the urgency of the situation, may I inquire as to when the Treasury Department may expect a reply to its previous letters of March 6, and March 19.

Respectfully,

(Signed) T. J. Coolidge.

Acting Secretary of the Treasury

LCM:RMC

C O P Y

COAST GUARD STATION

SAN DIEGO, CALIF., COASTAL AIR
STATIONCOPY

March 19, 1935

SA

The Honorable,
The Secretary of War,
Washington, D. C.

Sir:

Reference is made to the contemplated Coastal Air Station,
San Diego, California.

In connection with the above project, a request to you
from the Treasury Department dated March 6 asked that certain
land be transferred for use and occupancy of the Coast Guard.

It would be appreciated, pending action on this request, if
a map or contour plat showing physical conditions of the land in
question could be sent this Division for information.

By direction of the Secretary.

Respectfully,

(Signed) W. E. Reynolds

Acting Director of Procurement

Through Mr. Martin

6 March, 1935.

The Honorable,
The Secretary of War.

Sir:-

I have the honor to refer to the land under the control of the War Department at North Island, San Diego, California, known as Rockwell Field.

Application is hereby made for the transfer from the War Department to the Treasury Department for use and occupancy for Coast Guard purposes of that portion of the aforesaid land described as follows:

Beginning at the extreme western boundary of the Army and Navy reservations on North Island, a frontage of 700 yards in a general southerly direction along the westerly shore line, from that point to extend inward 500 yards paralleling the boundary line, from that point 700 yards in a general northerly direction approximately paralleling the shore line, to a point on the boundary line, 500 yards from the extreme western boundary.

Your prompt consideration of this application will be very much appreciated by this Department.

Respectfully,

Secretary of the Treasury.

April 9, 1935.
Tuesday.

175

H.M.Jr: How are you, Mr. de Laboulaye?
de L: All right, thank you.
H.M.Jr: I want to tell you how delighted I am on the word
I got about St. Pierre.
de L: Yes.
H.M.Jr: Yes.
de L: - last night. in the letter.
H.M.Jr: Well, I think that that's fine. It's really going
to be very helpful.
de L: You think so?
H.M.Jr: Yes.
deL: I am glad because I was waiting for
H.M.Jr: Well, that's - I - I'm very much pleased.
de L: You just received a word from your office yester-
day.
H.M.Jr: No, your - your commercial attache called us up -
de L: Oh, yes.
H.M.Jr: - called up Mr. Graves -
de L: All right.
H.M.Jr: - and told him that this was in confidence, but -
de L: He was a little ahead of me, but -
H.M.Jr: Well, your commercial attache called up Mr. Graves -
de L: All right. I will bring the form letter to
secretary or tonight or tomorrow morning, because I
got - in such a hurry now -
H.M.Jr: Right.
de L: - but, it is I will send the note and bring the
note myself secretary that I wanted to
bring to Phillips, but tomorrow morning or tonight
I can do the thing
H.M.Jr: Well, Mr. Ambassador, sometime when your financial

attache is in town - I've never met him -

de L: All right.

H.M.Jr: - and I'll be delighted if you and he would call on me -

de L: All right.

H.M.Jr: - and we're working very close with the banks of France, and I'd like to tell you what we're doing.

de L: Oh, yes.

H.M.Jr: Yes.

de L: But, my financial attache is not here right now but, may I call on you tomorrow or today?

H.M.Jr: Well, it's -

de L: Of course, you know I am leaving on Friday for France for one month.

H.M.Jr: Oh, for France?

de L: Yes.

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

de L: Then, I would like very much to have a talk with you before.

H.M.Jr: Yes, I would too. When are you leaving?

de L: On Friday morning.

H.M.Jr: Friday morning. Well, now, just a moment.

de L: Will you let me know the day -

H.M.Jr: No, I'll do it right now. I'm just looking at my calendar -

de L: Yes. All right.

H.M.Jr: I'm going down to meet the President when he comes in at three-thirty. I - I don't know just when I get back. Now, just -

de L: Today?

H.M.Jr: Could I -

de L: tomorrow morning

H.M.Jr: Could I call back your office - your secretary a little later?

de L: Yes. All right. But, for me it would be good tonight,

H.M.Jr: Oh.

de L: - between five and seven because I have a reception in music at nine-thirty.

H.M.Jr: Oh, yes. Mrs. Morgenthau's going.

de L: be sooner or tomorrow morning, if you like better.

H.M.Jr: Well, is - is eleven-forty-five a good time?

de L: Eleven-forty-five?

H.M.Jr: Yes.

de L: Tomorrow morning?

H.M.Jr: Yes.

de L: All right. Oh yes, that'll be all right.

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

de L: At eleven-forty-five tomorrow.

H.M.Jr: Yes.

de L: Thank you very much.

H.M.Jr: Thank you.

April 10th

At 4:45 I called the President. Holland wants us to buy gold directly from them at \$35 an ounce because they cannot ship it over fast enough. I think every week-end it would ease the situation considerably. I would offer them 10 million. They want 25 million.

Silver sold in New York at 63 $\frac{3}{4}$ ¢. It is over your Proclamation and the mining companies are equalling up. We can buy silver tomorrow at 65¢ but they would have to pay us 50¢ tax - the mining companies.

Mr. Oliphant suggests that you go clear to \$1.29 on newly mined silver.

I suggest that we raise it 1/8 of \$1.29, which would bring it to 70-5/8¢. When it goes to 72¢ Mexico will have to revise their monetary system.

The President said "raise it 1¢ a day". I said that would not do. I said, "bring it to a flat 70¢ and have the silver Senators come down to see you. We will send a Proclamation for you to sign tonight making the statement that newly mined silver will be 70¢."

I called Crane and said that the President had said to give Holland for tonight ten million dollars worth of business.

April 10, 1935.
Wednesday.

H.M.Jr: The President said we give them - with the ninth, just ten million dollars.

Crane: Yes.

H.M.Jr: I don't know whether that will satisfy them or not.

C: Yes.

H.M.Jr: Hello.

C: Yes.

H.M.Jr: He said just get off the cable and tell them we'll do ten million dollars worth of business.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: I don't - I don't follow you.

C: Yes, I understand.

H.M.Jr: Yes.

C: Just tell them that you're prepared to buy up to ten million dollars.

H.M.Jr: That's right.

C: In other words, you - you make a firm proposition with them for ten million dollars.

H.M.Jr: That's right.

C: Yes.

H.M.Jr: I'll leave the rest to you.

C: And do you - at the moment, you're not prepared to go beyond that?

H.M.Jr: No.

C: Yes, all right. Well, I'll - I'll draft up a cable on the basis of that -

H.M.Jr: Yes. I'll leave it to you - you get it off and send me down a copy of it by special delivery.

C: All, all right.

H.M.Jr: All right?

C: Fine.

H.M.Jr: Thank you.

C: I'll go ahead with it.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 10, 1935.TO Secretary Morgenthau

SUBJECT: _____

FROM J. E. Crane

Attached is copy of cable No. 33, dated April 10, from the Netherlands Bank which was transmitted to you by telephone this afternoon. I am also sending you herewith copy of the cable which we sent to the Netherlands Bank today following our telephone conversation with you when you authorized us to make a firm offer to buy up to \$10,000,000 gold delivered in Amsterdam for immediate payment.

CABLE

180

Mr. Crane

April 10, 1935.

NETHERLANDS BANK
AMSTERDAM

Your No. 33. We are desirous of cooperating with you and believe best method of procedure would be for the Treasury to buy gold from you as you require dollars. We have accordingly discussed your cable with Secretary of the Treasury and are authorized by him to advise you that he will immediately buy from you/up to \$10,000,000 gold earmarked in your vaults in our name, such gold to be guaranteed free for export under any circumstances and to be shipped to United States Assay Office in New York at your risk and expense on first available steamers and to be settled for with the Treasury on the basis of the outturn at the United States Assay Office at \$55 per fine Troy ounce less customary mint charges and usual 1/4 per cent handling charge.

FEDERAL RESERVE BANK OF NEW YORK

181

INCOMING CABLEGRAM—SERIAL NO. 788RECEIVED ON April 10, 1935

Amsterdam, April 10, 1935.

CONFIDENTIAL

Federal Reserve Bank of New York

New York

No. 33

We are cabling to ask whether you would be willing to make arrangements with us under which we could draw dollars on you against earmarking gold in our vaults for your account. We do not propose to make use of such arrangements under ordinary circumstances but should like to have possibility of selling dollars in this market in case of erratic exchange rate movements similar to what we do with regard to French francs. Although actual situation of our exchange market much more quiet than last week and at present no reason to expect excessive movements we should like to be prepared for all possibilities. Gladly prepared to let you have more details by telephone if so desired.

De Nederlandsche Bank.

MY

April 10, 1935.
Wednesday.

H.M.Jr: How is this different in giving them a credit just the way we did Belgium?

Crane: Giving them a credit?

H.M.Jr: Isn't that what it amounts to?

C: Well, of course, in the case of Belgium, we offered to make them advances against gold.

H.M.Jr: Yes.

C: And that meant that they had to pay interest, and I think it would suit the Dutch very much better if we would buy the gold from them and have them ship it to us here.

H.M.Jr: Well, then what I didn't understand in the cable - when it meant ear-marked - would that mean the gold would stay there or would it come?

C: Oh, no, no, no - they'd ship it - they'd ship it to us. My idea would be that we would buy it from them at \$35 less 1/4, to be shipped to New York at their risk and expense, and bought by us on the basis of the out-turn at the assay office.

H.M.Jr: Well, that sounds all right, Henry. Well, I thought that this was to be a dollar credit.

C: No, no, no, no -

H.M.Jr: They just want to ship us -

C: - I don't think they want to make a loan.

H.M.Jr: Oh, they just want to know whether we'll buy gold over there and give them the credit immediately, is that it?

C: Yes.

H.M.Jr: Well, now -

C: Now -

H.M.Jr: All right, now -

C: I've got a - just a short draft of a cable here that I've been working on -

H.M.Jr: Well, now - all right.

C: - that I'd like to read to you. It's the way I think we ought to deal with it.

H.M.Jr: Just a minute. I want Mrs. Klotz to get on the phone.

C: Yes.

H.M.Jr: Just a minute. Read it slowly.

C: All right now.

Mrs. Klotz: Yes.

H.M.Jr: Go ahead.

C: Cable from Federal Reserve Bank at New York to Netherlands Bank, Amsterdam -

H.M.Jr: Yes.

C: Your number 33. "We are desirous of cooperating with you and believe best method of procedure would be for our Treasury -

H.M.Jr: Little slower - "our Treasury".

C: - to buy gold from you as you require dollars. We have accordingly discussed your cable with Treasury -

H.M.Jr: I'd say with the Secretary of the Treasury.

C: Right, - Secretary of the Treasury and are authorized by him to advise you that he is in principle willing to buy gold from you, delivered in Amsterdam, subject to satisfactory arrangement of details." That's all I'd say tonight.

H.M.Jr: Yes.

C: Now -

H.M.Jr: I'd like to put in - you most likely don't understand it, but what I call a little smootch.

C: A what?

H.M.Jr: Everybody here knows what it is. (Laughter)

C: I didn't hear you.

H.M.Jr: A little - I don't know what it is in - you must know what smootch is, don't you?

C: A little - (Laughter)

H.M.Jr: Blarney, says Lochhead.

C: What?

H.M.Jr: Lockie - Lochhead says Blarney, I say smootch.

C: Oh, yes.

(Laughter)

H.M.Jr: - about the cooperation and, you know, neighborliness -

C: Yes.

H.M.Jr: Something a little bit about that, see?

C: Yes.

H.M.Jr: Now, I've got to decide with Oliphant on silver and then when I got that I want to call up the President about going ahead on this, and if you stick around, I'll give you a yes or no within a very few minutes.

C: Yes. Well, now - if you want to give the details, we can do that. We can say that the gold must be free for export -

H.M.Jr: Oh, yes. I'd put all that in. They're most likely - they're most likely nervous about this.

C: Well, let me - let me dictate the last part of that over again.

H.M.Jr: Yes.

C: Hello.

Mrs.K: "We have - " - the last paragraph?

C: Now, Mrs. Klotz, I say to advise you that he is in principle willing to buy -

Mrs.K: "Gold from you - "

C: "Gold from you - "

Mrs.K: Yes.

C: - and then cross out from there on.

Mrs. K: Yes.

C: "Gold from you" - comma - "such gold to be free for export - "

Mrs.K: Yes.

C: " - and to be shipped to New York at your expense and risk - "

Mrs.K: Yes.

C: - and bought by the Treasury -

Mrs.K: Yes.

C: - on the basis of the out-turn at the United States Assay Office at \$35 per fine troy ounce, less $\frac{1}{4}$ percent - period - that's all. Mrs. Klotz write the cable up that way instead of the first way I dictated.

Mrs.K: Yes, yes.

C: See?

Mrs.K: Yes.

C: All right. Then, I'll stick around until I hear -

H.M.Jr: Please stand by, will you please? Right.

April 10th

109

Mr. Morgenthau asked the French Ambassador, Mr. Andre de Laboulaye, to come in to see him at 11:30 to-day because the Ambassador is leaving for France on Friday. He wanted him to take back to his government the thought that the United States wanted to co-operate in every way possible with France. In order to bring the French Ambassador up to date, Mr. Morgenthau read a copy of the conversation which we had yesterday (through the Federal Reserve of New York) with Mr. Cariguel, of the Bank of France, which is as follows:

"In accordance with telephone request from Secretary Morgenthau this morning I telephoned to Mr. Cariguel at the Bank of France this afternoon to give him a message from the Secretary, the substance of which was as follows:

The Secretary has just heard that the situation at St. Pierre has been attended to, he is delighted at the outcome and wants the French to know how he feels about it and that he is anxious to cooperate closely with them. If he can be helpful in any way the Secretary would like to know about it and if the dollar rate in Paris should go too high and the private banks not take gold fast enough, he is willing to have the Bank of France sell up to \$5,000,000 at 6.58 or better.

Mr. Cariguel said that he was delighted to get Secretary Morgenthau's message, that he would pass it along to the Governor of the Banque de France and that, with respect to the order to sell up to \$5,000,000, he appreciated the offer very much although he pointed out that there was no occasion at the present time to make use of it since the dollar was below gold export point in Paris.

I asked Mr. Cariguel about the exchange market and he replied that it had been quieter today although both the Swiss and Dutch exchanges were under pressure. He said that Switzerland was the weaker of the two countries and that it looked as though Governor Bachmann's morale was deteriorating. On the other hand, he said that Governor Trip seemed to be determined to hold on and had today made a further increase of 1 per cent in his bank rate. Mr. Cariguel said he anticipated that the Swiss would be the first to go, that he did not know how long they would be able to hold out and that for the time being he expected a lull in the exchange situation."

The French Ambassador was greatly impressed.

The Ambassador did not know that France had asked us to join them in making a loan to England to bring about stabilization and that we had refused.

Mr. Morgenthau explained very carefully that this was a monetary matter and not a "diplomatic" one.

deL: Are you satisfied working through the Bank of France?

H.M.Jr: Up to now it has worked very easily. However, if after you return from abroad and have any suggestions which will improve our relations with France, I would be glad to receive them.

deL: The Bank of France is a private bank, an independent organization, and is not under the supervision of the French government.

H.M.Jr: I would be glad to receive any further suggestions which would bring the United States and France closer together.

deL: Are you in favor of stabilization?

H.M.Jr: Yes. We have had stabilization for 15 months, thanks to the Franc and the dollar. We are satisfied with the present rates but I do not know whether the French are. Sterling is 4.85. I expect it may go up 10¢ or down 10¢. However, it is very steady and we are satisfied. The English say that just as long as the Franc is what it is and the dollar is what it is, they cannot stabilize.

deL: I agree to what you have just said.

H.M.Jr: I want to point out to you that between the United States and France we own 70% of the gold in the world and this is a very powerful weapon and I believe we can accomplish a great deal if we work closely together.

deL: I believe that when the Franc and the dollar are stabilized, England will be in a very strange position and will have to do something. I will be back in this country the end of May and I hope to have some information for you at that time. The fact that you have given us the 5 million dollars is really a great gesture and I know that the French government appreciates it.

April 10, 1935.
Wednesday.

153A

H.M.Jr: Who is this?

Coolidge: It's Jeff.

H.M.Jr: Oh. Hello, Jeff.

C: I find that these people are almost unanimous in doing it promptly and along the lines that I've talked about.

H.M.Jr: Unanimous to do what?

C: To do this conversion promptly.

H.M.Jr: Oh, really?

C: Yes. I should say I've seen seven or eight people -

H.M.Jr: Yes.

C: Five of them decided they wanted to do it.

H.M.Jr: I see.

C: And three of them were indifferent.

H.M.Jr: Yes. Well, is it time enough to make up our minds tomorrow?

C: Yes. We can make up our minds Friday.

H.M.Jr: You got any terms?

C: On Friday.

H.M.Jr: Have you got any terms, I say.

C: I didn't hear, Henry.

H.M.Jr: Terms, what yield, terms.

C: Oh, the terms. The terms, they think, is important. They have the five-year note,

H.M.Jr: Yes.

C: And a bond to give - to give an option on.

H.M.Jr: I see.

C: I think Randolph and myself - more or less an agreement to give an option on the two securities

we sold previously.

H.M.Jr: Yes. Well, we'll talk it over in the morning.

C: Yes. Now, do - did you want to do anything about the bond market committee?

H.M.Jr: Well, I don't that - no, I don't. The time is too short this time. Let's talk it over - what?

C: It suits me either way.

H.M.Jr: Well, I'd want - I tell - could Burgess come down tonight and be here tomorrow morning?

C: Just a minute. He has a directors meeting tomorrow, but he could do it - he'd prefer Friday. I - I think he ought to be down tomorrow really.

H.M.Jr: Yes. Does he fly?

C: I don't hear very well, Henry.

H.M.Jr: Does he go on an airplane?

C: Just a minute.

April 10, 1935.

184

A group met in the office of the Secretary of the Treasury at 10:30 A.M. to discuss the report made by Tom K. Smith on Housing agencies.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,

John H. Fahey, Chairman, Federal Home Loan Bank Board,

Preston Delano, General Manager, HOLC,

John G. Laylin, Assistant General Counsel, Treasury Department,

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

R.L. Hoguet, Jr., Banking Assistant, Treasury Department,

C.B. Upham.

The first thing brought up for discussion by the Secretary was the delinquency record. Before there was any discussion of that, however, Mr. Fahey outlined the situation of the corporation with respect to legislation now pending in Congress. In his opinion the greatest threat to the corporation is political, particularly the proposed amendment which would abolish the regional offices and require employes in the State and divisional offices to be residents of the respective states and districts. Mr. Fahey stated his belief that if undesirable legislation of this type could be averted and if the application lists were not reopened that the corporation could keep within a \$750,000,000 or \$1,000,000,000 additional bond issue in taking care of applications already filed.

Both he and Mr. Delano were of the opinion that the full authorization of \$1,750,000,000 additional carried in the bill would not all be used.

There was some discussion of the different methods employed by

the HOLC and by the Treasury in figuring delinquencies.

The Secretary explained that his interest in the matter grew out of the fact that he was acting as Chairman of the Interdepartmental Loan Committee and that the Treasury is responsible for the guarantee of the bonds of the corporation.

It was agreed that a meeting be arranged between Treasury people and HOLC people for a further discussion of the statistics on delinquencies to report back at a later meeting.

Mr. Fahey said that if the interest rate of 5% could be maintained and if abnormal expenses could be avoided he thought that the loss to the corporation on its loans would not be so great as some people anticipated. There will be some losses, he said, and of course if the interest rate is cut and if operations are hampered by political measures and otherwise, the corporation will undoubtedly come out at the little end of the horn.

Mr. Delano made the point that a good many of the corporation's loans were bad loans, that the Congress had authorized them to make distress loans and that in his opinion the collections were coming in pretty well.

Mr. Bell asked if the corporation is paying interest on its bonds out of income or out of capital.

Mr. Delano replied that the corporation had run a deficit last year and that meant that either interest or operating expenses have been paid out of capital. He referred to the fact, however, that substantial reserves had been set up by the corporation.

Mr. Bell pointed out that the Treasury had no appropriation with which to pay interest on bonds which might be in default, and

Mr. Delano replied that the corporation had unlimited authority to sell bonds for the purpose of paying interest.

It was agreed that charts would be drawn showing the trend of HOLC delinquencies for as long a period extending backward as is possible.

Mr. Fahey was not receptive to the idea advanced in the Smith report that Titles 2 and 3 of the Federal Housing Act be transferred to the jurisdiction of the Home Loan Bank System. He urged that they be left where they are and the FHA would carry forward its activities as far as it can and that we will have a much clearer picture of the situation later. He considered it extremely doubtful to stir it up now. He suggested that if the FHA was not getting anywhere in four or five months, perhaps it might be well to cut off the whole activity.

With respect to appointing a liquidating Administrator for the HOLC when applications have been cleaned up, Mr. Fahey said he did not regard that proposal as sound. He suggested that they cross the bridge when they come to it, particularly in view of the fact that the pending legislation may permit the filing of new applications.

It was agreed that a later conference between the Treasury and the legal staff of the Home Loan Bank System go into the matter of subscriptions to the stock of FS&LA's to report back later.

It was agreed that Mr. Bell would look into the matter of the Budget Bureau Control Clause in the pending HOLC bill.

April 11, 1935.
Thursday.

Crane: Good morning, Mr. Secretary.

H.M.Jr: Hello, Crane. Have you heard from Amsterdam?

C: No, I haven't had any reply yet. I - I sent off the message last night. Did you get a copy?

H.M.Jr: Well, I imagine we did. I - I -

C: I - I sent it to you special delivery.

H.M.Jr: Well, if - I'll ask for it.

C: And -

H.M.Jr: I think under the circumstances I'd call up - what's the fellow's name there?

C: Trip.

H.M.Jr: Trip, and have a little talk with him, see?

C: Right.

H.M.Jr: I'd like you to call up Trip and have a little talk.

C: Right.

H.M.Jr: And I think it would be a good contact anyway.

C: Yes.

H.M.Jr: And see how he feels and ask him what he's done and what he looks for over the week-end, see?

C: Yes. Well, now, can I - can I - if he asks, intimate that we'll probably take some more?

H.M.Jr: I think so.

C: Yes.

H.M.Jr: I think so.

C: I mean we don't want to give him the impression that this is all we'll do.

H.M.Jr: No, no, no. First - I had him last night. He had five or six Senators there when I called him. He was talking about cotton, and I had him at a bad time and what I'd like to know is how much gold have they got left, see?

C: Yes.

H.M.Jr: How much have they got left and - of course, we must know how much is on the way.

C: Yes.

H.M.Jr: And Tripp's a good man and I think as long as he has cabled I'd call him up.

C: Yes. All right, I'll do that.

H.M.Jr: And call me back?

C: Yes, I will.

H.M.Jr: Thank you.

C: Goodbye.

Federal Reserve Bank
Of New York

Received on April 11, 1935

Amsterdam April 11, 1935

Federal Reserve Bank of New York

New York

No. 34 CONFIDENTIAL

Thanks for your No. 18. We have discussed matter with our government and they are giving required guarantee as to exporting the gold. We shall let you have text of guarantee as soon as possible. We shall gladly make use of facilities offered if circumstances make it desirable to do so. We understand that by first available steamers you mean first available Dutch steamers in regular service with United States.

De Nederlandsche Bank

April 11, 1935.
Thursday.

Crane: Mr. Secretary?

H.M.Jr: Yes, Crane.

C: I had a very satisfactory talk with Trip .

H.M.Jr: Good.

C: He was very nice -

H.M.Jr: Yes.

C: - and I told him that we were anxious to cooperate. I said that you also were, and he thanked me very much and said that was grand and he was very nice.

H.M.Jr: Good.

C: He says that the proposal that we had made to him in our cable last night was entirely satisfactory to him. He acted as though the amount was all right -

H.M.Jr: Yes.

C: - although I intimated to him that if he needed any more at any time, to let us know; to call me on the phone and I'd try and take care of him.

H.M.Jr: Yes.

C: He said that he didn't expect to have to use it right away; that the exchange situation was much quieter;

H.M.Jr: Good.

C: that he hadn't lost much gold this week and that his first gold holdings are about \$450,000,000.

H.M.Jr: \$450,000,000.

C: Yes.

H.M.Jr: That's very good.

C: And - yes, he's got a good - good stock there. He said that he had discussed our cable with the minister of _____ and that he had received from the Dutch Government a guarantee that any gold that we bought from them would be free for export.

- 2 -

H.M.Jr: Would be what?

C: Would be free for export.

H.M.Jr: Free for export.

C: Yes. That's one of the points that we made in the cable.

H.M.Jr: Yes.

C: See?

H.M.Jr: Yes.

C: and he said he was going to send me a cable this afternoon,

H.M.Jr: Fine.

C: - about it. But, he - in general, he was very well satisfied with our cable and quite pleased that I called him.

H.M.Jr: Well, you send me special delivery of that conversation.

C: Yes, all right.

H.M.Jr: Will you?

C: Yes.

H.M.Jr: Thank you.

C: All right. Goodbye.

H.M.Jr: I think we're making a few friends, don't you?

C: Oh, yes, I think it's a good thing to - to - yes, I think we're making some and it's a good thing to do it.

H.M.Jr: Right.

C: Yes.

H.M.Jr: Right.

C: All right.

H.M.Jr: Thank you.

Federal Reserve Bank
Of New York

188

April 11, 1935.

To: Secretary Morgenthau

From: J. E. Crane

Referring to my memorandum of yesterday regarding cables exchanged with the Netherlands Bank concerning the purchase of gold in Amsterdam, there is attached copy of cable No. 34, dated today, received from the Netherlands Bank. You will observe that with reference to your offer to buy up to \$10,000,000 of gold from them, they state "We shall gladly make use of facilities offered if circumstances make it desirable to do so."

JEC:KMC

April 11, 1935.

To: Secretary Morgenthau
From: J. E. Crane

Telephone conversation with
President Trip of the Nether-
lands Bank.

In accordance with your suggestion this morning I telephoned to President Trip of the Netherlands Bank in Amsterdam to inquire whether the proposal made in our cable of last night was satisfactory and to assure him of our desire to cooperate. President Trip said that our proposal was entirely satisfactory to them, that he greatly appreciated our willingness to cooperate with him and that in order to put himself in position to take advantage of our offer to buy \$10,000,000 of gold from him he had already obtained from the Minister of Finance a guarantee to the effect that gold bought by us in Amsterdam would be free for export in any circumstances. I asked President Trip whether the amount of \$10,000,000 suggested in our cable was sufficient for his purpose and he replied that it would be adequate as an initial transaction. I told him that if and when the \$10,000,000 were used up I would be glad to take up with the Treasury the question of buying more gold from him if he would communicate with me by telephone. Governor Trip said that the guilder had been under much less pressure this week, that the exchange market was now fairly quiet and that he did not expect it would be necessary to sell us gold at the present time.

In response to my inquiry about the present size of his gold holdings, he said that there had been little change since their last public statement of April 8 when their gold

reserves were given as 674,000,000 guilders and that the total was now about 665,000,000 guilders or, say \$450,000,000. I assured President Trip of our desire to be helpful and he expressed their warm thanks. The conversation was very friendly and cordial and he was apparently pleased that we had telephoned to him.

JEC:KMC

April 11, 1935.
Thursday.

Grover Whalen: (?) I was in Washington yesterday and I wanted to drop in and see you for a moment.

H.M.Jr: Oh, I didn't know you were in Washington. I thought you were in New York.

W: Oh, no, I was there yesterday and visited with Jim and a few others around -

H.M.Jr: Oh.

W: - and everything went along in the manner that you were interested in those men, Henry.

H.M.Jr: So everything went fine?

W: The-Beckenstein, you know, the glass people -

H.M.Jr: Yes.

W: - he's going to be in Washington tomorrow and he's going to drop in and see you.

H.M.Jr: Well, I don't - I'm coming up for Mr. Ochs' funeral in the morning.

W: Oh, yes. That's right.

H.M.Jr: Yes.

W: But, he - he wants to tell you about the situation in the glass business. Of course, you'd be interested how the new law is working out.

H.M.Jr: I'd be very much interested, but I won't be able to see him tomorrow.

W: Well, that's all right. I'll tell him here at New York, then, that you won't be there. I also wanted to talk to you about some of that institutional advertising.

H.M.Jr: All right. The first stuff they brought us down was very poor.

W: Yes.

H.M.Jr: I didn't like it at all.

W: They came to me with some of the copy and I didn't care for any either.

H.M.Jr: No.

W: But, I wanted to get your reactions to some of the suggestions that I made.

H.M.Jr: Well -

W: But, I'll probably drop in and see you next week.

H.M.Jr: Good.

W: All right.

H.M.Jr: Give me a little notice, will you, Grover. We're kind of pushed a little hard here.

W: Yes.

H.M.Jr: I need about a day's notice.

W: All right, fine.

H.M.Jr: All right.

W: All right. Thanks very much. Goodbye.

JUL 25 1964

April 11th

H.M.Jr. called Speaker Byrnes this morning and told him that we prepared a series of liquor bills which we gave to Mr. Doughton. Attached herewith is their telephone conversation.

April 11, 1935.
Thursday.

192

Byrnes: Hello, Mr. Secretary.

H.M.Jr: Good morning.

B: How're you this morning?

H.M.Jr: Fine. I'm all full of silver, vim and vigor.

B: I noticed that. I've been reading about you.

H.M.Jr: How do you like that?

B: Is it going to help?

H.M.Jr: I think so.

B: Well, I think it certainly ought to sort of relieve a little of the tension up here.

H.M.Jr: You think it will?

B: I know so little about the finances, you understand?

H.M.Jr: Well -

B: I don't know - I don't know what its effect is going to be either on them or on the country generally, but I'm willing to bet for that, of course. But, I think that is bound to lighten the situation up here -

H.M.Jr: Good.

B: - to some extent, anyhow.

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

B: Of course, there are some who are never going to be satisfied.

H.M.Jr: No.

B: You can't hope to please them, but I think this will please those who look at - who try to look on the matter in a reasonable way.

H.M.Jr: Fine. Mr. Speaker, we're in a little jam.

B: What's that?

H.M.Jr: We prepared a series of liquor bills which we gave to Mr. Doughton. Congressman Celler sort of went along and had a lot of bills on liquor and as I understand it, had himself appointed chairman of the

sub-committee under the judiciary committee, and I'm told that he's going to start hearings tomorrow. It makes it sort of difficult for us and we'd like a little advice because - just to - which committee you think should handle it. We've given all of ours to Mr. Doughton; maybe we were wrong, but we thought that that's where it belongs.

B: Well, I'm inclined to think so myself because they were - they were responsible for the written legislation.

H.M.Jr: Yes.

Weren't they?

H.M.Jr: I - I believe that that legislation all went through Mr. Doughton originally.

B: I say - originally. Now, that being so -

H.M.Jr: Oliphant is here and he said said it belonged to Mr. Doughton.

B: Well, I was just going to say that - that since it came from that committee and that was my understanding, why, that's where these bills belong undoubtedly.

H.M.Jr: And if I should say something to you absolutely between us -

B: Yes.

H.M.Jr: I think Celler should be the last man to handle it.

B: Yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: That's just-

B: But, I understand, that's between us.

H.M.Jr: That's absolutely between us.

B: Well, I think - I think that ways and means committee - has Bob Doughton introduced the bills?

H.M.Jr: I'll just ask - (Has Bob Doughton introduced the bills?) No, he hasn't introduced them, but he's got them all.

B: Well, have these bills that Celler's got - they've been introduced, of course?

H.M.Jr: No, I don't think Celler's introduced his bills.

B: He has not. Well, why don't Bob Doughton drop them in the basket this morning, and I'll refer them to his committee, unless there are reasons why they shouldn't be, but my -

H.M.Jr: It's kind of delicate for me.

B: Well, I'll talk to Bob.

H.M.Jr: Would you? And would you mind calling me back, or should I call -

B: Yes, as soon as I can get a hold of him. Of course, he's going to start his security bill today -

H.M.Jr: Yes, but - he could drop our bills in the basket, couldn't he?

B: Wy, sure. Well, let me get a hold of first, and then I want to look into the situation a little more fully, and then I'll talk to Bob, and I think what Bob should do if those other bills haven't been introduced to drop his bills in, and if we are correct in our assumption, you understand, why just let me send them to his committee.

H.M.Jr: Right. Well, thank you. Well, then I'll hear from you a little later?

B: Yes, I'll do that as soon as I can contact those two fellows.

H.M.Jr: Well, I'm here - I'm here right along.

B: All right.

H.M.Jr: Thank you.

April 11th

H.M.Jr. talked to Bell and Coolidge and told them that he wanted to wait until after Easter to announce his re-financing.

H.M.Jr. said to-day that inasmuch as Ickes was appointed Chairman of the Allotment Board that Harry Hopkins may quit.

1954

April 11, 1935.
Thursday.

Senator

Robinson: Good morning.

H.M.Jr: Senator Joe Robinson?

R: Yes.

H.M.Jr: Henry.

R: All right, Henry.

H.M.Jr: How did you like what we did on silver?

R: I think it's all right.

H.M.Jr: All right. I'm sending - hello -

R: Yes.

H.M.Jr: I'm answering McCarran's letter today. You know, he wrote me a letter denouncing publicly about the silver tax and silver exchange.

R: No, I didn't know about that.

H.M.Jr: Well, I'm sending him a copy by hand, and I'm sending you a copy also. I thought it was a good day to answer it.

R: You want to put it in the record?

H.M.Jr: Well, his - his letter to me is in the record.

R: It is in the record?

H.M.Jr: He put his in the record and then he announced it publicly, you see?

R: All right, I'll put that in the record for you.

H.M.Jr: Right. I - I - I can't - confidently I had two assistants go over the letter first and he made a couple of changes in it and when it's through he said it's all right.

R: Yes.

H.M.Jr: So I think the letter is all right.

R: All right.

H.M.Jr: Thank you.

R: All right, Henry. Thank you.

H.M.Jr: Goodbye.

195 B
April 11, 1935.
Thursday.

H.M.Jr: Hello.

Operator: He's on the floor.

H.M.Jr: Well, will you get him, please.

Operator: Yes, sir.

H.M.Jr: Send word.

Operator: Go ahead.

H.M.Jr: Hello.

Robinson: Hello, Mr. Secretary.

H.M.Jr: How are you?

R: Mr. Secretary, I'm about to insert your reply -

H.M.Jr: Yes.

R: - in the Record -

H.M.Jr: Yes.

R: It isn't dated. Should I date it?

H.M.Jr: Oh, I'm sorry. That's a mistake. It should have been dated today.

R: Yes. Shall I insert the date?

H.M.Jr: I wish you would. I'd appreciate that.

R: I'll be glad to do it.

H.M.Jr: We took a little time, because that was quite a difficult letter you gave us.

R: Yes.

H.M.Jr: And I wanted to be sure to have it right.

R: Well, of course, I - confidentially I don't think you're right yet, but then, that's all right, that's just between you and me.

H.M.Jr: Well, that's what makes horse races, isn't it?

R: That's it - exactly right.

H.M.Jr: Yes.

R: But, anyway, I'll insert the date.

H.M.Jr: All right. Thank you.

R: All right, Mr. Secretary.

H.M.Jr: Goodbye.

April 11, 1935.

My dear Senator McCarran:

I have your letter of April 4, 1935 in which you discuss the advisability of continuing the provisions of Sections 6, 7, and 8 of the Silver Purchase Act of 1934. After asking a number of specific questions based upon certain assumptions as to the facts, your letter concludes with a request for my comments upon your thoughts; my correction of any false assumptions; and my suggestions as to any proposed legislation.

I shall begin with the assumptions.

In the first place, the true purpose of the silver program of the Government as set out in the President's message to the Congress of May 22, 1934 and as embodied in the Silver Purchase Act is to improve the monetary system of the country, and, immediately and more specifically, to increase the proportion of silver in the metallic reserves back of our paper currency. This purpose is explicitly stated in the Presidential message just mentioned and is formally declared in the following language of the Silver Purchase Act of 1934:

"Sec. 2. It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one fourth of the monetary value of such stocks in silver."

Moreover, the statute makes perfectly plain what the duty of the Secretary of the Treasury is with reference to its purpose, and

the Congress has left in no doubt how he should proceed in carrying out that purpose, because the Act provides:

**** the Secretary of the Treasury is authorized and directed to purchase silver *** at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest ****.

In view of the foregoing, no responsible and just policy could have disregarded the question as to who should reap the advantage flowing from the Government's monetary action with reference to silver. Such was the policy of the legislation which provided that the increased value given to gold by reason of our gold program should revert to the Government for the benefit of all.

At the same time, persons who increase the world's stock of silver as well as gold by mining or refining, may properly be distinguished from people who merely hold or deal in a monetary metal for the purpose of realizing profits from governmental action. Accordingly, people such as the miners and refiners may, on this basis, be accorded a treatment which it would be unfair to accord to the hoarder or to the speculator.

Your first question, whether the authority granted by Section 6 of the Silver Purchase Act is not "somewhat superfluous" when read in the light of the foregoing, can lead to only one answer. You ask whether the Congress in granting such authority to investigate, regulate, or prohibit dealings in silver or the importation or exportation thereof, "did not carry the theory a step too far by selecting one commodity". Have you not over-

looked the fact that the Congress has selected two commodities which are subject to such regulation, that those two commodities are the monetary metals underlying our currency system, and that, in the language of the Supreme Court, "there attaches to the ownership of gold and silver those limitations which public policy may require by reason of their quality as legal tender and as a medium of exchange"? To answer your question more specifically, while the international monetary situation continues to be unstable and while we are improving the monetary uses of silver and gold and increasing our stocks of silver, the reserve executive power in Section 6 of the Silver Purchase Act, Section 3 of the Gold Reserve Act, and Section 2 of the Emergency Banking Act should not be disturbed. To do so would paralyze action which the Government may have to take in order to protect our monetary system from possible crises in the international exchange markets and from speculative dealings in the monetary metals and other foreign exchange.

Your next question relates to Section 7 of the Silver Purchase Act. You ask if the authority to "nationalize" silver has not already accomplished the purposes for which it was designed. My thoughts on Section 7 are again that the President's authority to call in silver was properly made as broad as his authority to call in gold. By reason of the more stringent regulation of dealings in gold, unnecessary accumulations of that metal in this country are no longer possible. Unless silver

were subjected to regulation equally stringent, the authority should remain again to call in silver in the event that a tendency should arise to withhold that metal for non-industrial purposes. I assume, of course, that you have not overlooked the fact that the order "nationalizing" silver operated only on silver situated in this country on the date of its promulgation, August 9, 1934.

Your final question relates to the so-called silver tax. You state that you have until recently been "unaware that Section 8 levies this tax of fifty per cent on silver profits on all transfers and thereby must practically preclude the purchase and sale of this commodity within our jurisdiction". This assumption is not entirely accurate. The tax applies to all transfers but the statute makes adequate provision for abatement or refund of the tax on profits arising from transfers both for industrial purposes and also in hedging transactions in silver foreign exchange. The result is that this tax is payable only where it should be payable, that is, on silver profits arising from an increase in the price of silver due to the purchases which the Secretary of the Treasury is authorized and directed to make.

In the administration of the silver tax, the Treasury has succeeded, I believe, in maintaining this distinction. Opposition to the silver tax can come only from a failure to recognize this

distinction. Surely, it is not unfair to those whose profits are due to governmental action, that half of those profits should revert to their Government. Failure to preserve at least this much would be unfair to the great majority of our citizens who contribute directly and indirectly to the payment of Government expenditures but who do not deal in silver in anticipation of profits due to governmental action.

The remaining half of your letter assumes that the United States cannot buy silver through domestic brokers because of the silver tax. I can assure you there is nothing in this. It is a standard provision of all transfer taxes that when the transferor fails to pay the tax the transferee shall be contingently liable, but that, where the transferee is the United States, this contingent liability does not apply as it would be useless for the Treasury to pay a tax to itself. The silver tax expressly follows this practice. If the United States is not contingently liable as transferee, brokers, acting on behalf of the United States, need not pay on behalf of their principal a tax which the principal does not have to pay. This is equally true whether the agent is a domestic or foreign broker.

The Treasury makes purchases abroad as well as in the United States to carry out the mandate of Congress to purchase silver upon terms most advantageous to the public interest. Congress in enacting the mandatory silver purchase program contemplated

purchases in such quantities as necessarily to involve purchases abroad. Indeed the Act specifically refers to purchases "at home and abroad". Foreign sellers prefer to offer their silver in their own markets, which, of course, they have every right to do. By doing this, their sales to the United States fall outside the scope of this tax. In making purchases from them, the United States obviously does not evade or connive in the evasion of the tax, either in form or in spirit.

You ask if the repeal of Sections 6, 7, and 8 of the Silver Purchase Act would interfere with operations contemplated under the other provisions of this Act. I think those three sections have contributed materially to the success of our Silver Purchase program and believe that their repeal would jeopardize the true purpose of the legislation of which they form a part.

Very truly yours,

201A
April 12, 1935.
Friday.

H.M.Jr: What's new?
L. W.
Knoke: Silver's up.

H.M.Jr: Nol

K: You've seen that?

H.M.Jr: Yes.

K: Why, the only thing of interest I have, I just talked with Leon Fraser,

H.M.Jr: Oh, yes.

K: - on the phone -

H.M.Jr: That's interesting.

K: - and he gave me some pretty good dope. He said that the members of the gold bloc were still feeling the pressure.

H.M.Jr: Yes.

K: But that it looked as though they were going to be able to hold on for awhile;

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

K: - that the pressure was not as acute as it had been. He still thinks that they won't be able to see it all the way through -

H.M.Jr: I see.

K: - but he says it looks like a fairly quiet period unless something turns up.

H.M.Jr: I see.

K: He says that in Switzerland the - it's a most troublesome place; that they wanted last week to put foreign exchange restrictions into effect -

H.M.Jr: Yes.

K: - in Switzerland, and they were dissuaded from doing that, although they now have a sort of gentleman's agreement with the Swiss banks under which they don't permit any speculative transactions,

H.M.Jr: I see.

K: or any flight of capital.

H.M.Jr: Yes.

K: He says they're all watching the Belgian experiment very closely and that if that turns out well, they - other members may be inclined to copy it.

H.M.Jr: We've sent a man over there, you know.

K: You what?

H.M.Jr: We've sent a man over there. I said, I have sent a man over there,

K: Oh.

H.M.Jr: An economist.

K: What kind of a man?

H.M.Jr: Well, I don't know whether you know Shepherd who was here with us.

K: No.

H.M.Jr: Well -

K: An economist?

H.M.Jr: Economist. He took his D.H.C. with Kemper, and then did a paper on Belgium.

K: Yes.

H.M.Jr: Speaks French fluently and as a matter of fact, his paper was corrected by

K: Oh, really?

H.M.Jr: Yes, so we thought he was ideally suited to go over there.

K: Yes.

H.M.Jr: So he's going to stay there.

K: Yes, well, that's fine.

H.M.Jr: Now, anymore from Holland

K: No, I - I sent you down last night a copy of the

cable that we got from them.

H.M.Jr: I didn't get that. I'll ask Mrs. Klotz.

K: Yes, I sent it to Mrs. Klotz.

H.M.Jr: Right.

K: But there wasn't anything much in that. I just thought you wanted to look at it.

H.M.Jr: Well, there nothing - no reason to call them up today.

K: No, I don't think so.

H.M.Jr: All right.

K: Goodbye.

H.M.Jr: Everything else all right?

K: Yes -

H.M.Jr: I think the week-end is going to be quiet, don't you?

K: Yes, I do too.

H.M.Jr: I think the week-end that may be mad will be Easter.

K: Well, yes, it might. It has been before.

H.M.Jr: Yes. Well, thank you.

K: All right. Goodbye.

April 13, 1935.
Saturday.

201 D

Senator J. H.
Lewis: (?) Hello, Henry?

H.M.Jr: Hello,

L: Sorry to bother you, but if you can just give me a little information.

H.M.Jr: You never can bother me.

L: Senator Moore, last night came to my apartment in the hotel up at Camden, New Jersey they had Republican District there; they have an election some day next week, I think it is form of government and the Commissioner of Internal Revenue had been to the Democratic meeting there, and I think the lady who is the Postmistress, and has been a very good Democrat is because the Democrats have taken some interest in the election, evidently. They up there Morgenthau's representative to investigating these two Democrats and that they are going to be given a lot of trouble because they are expressing their views too freely about the political situation. Do you know anything about it at all?

H.M.Jr: No, I don't; I don't know a thing about it.

L: Well, I told him - I said I'm certain Henry Morgenthau don't know a damn thing about it.

H.M.Jr: You know, Lewis, during the last election, they several times accused us of that and I'd always run the thing down.

L: Well, what representative would you have doing it?

H.M.Jr: I - I never send anybody out. What happens is this, sometimes after these things are over, we get complaints -

L: Yes.

H.M.Jr: - and - but after this if the Collector wants to take an interest, a not too active interest in his own state campaign, on his own time, we never interfere.

L: Well, I thought

H.M.Jr: We never interfered. We've got certain rules - I tell you what I do - if you've got a minute, see?

L: Yes.

H.M.Jr: I've appointed, what I call, my political committee to handle cases like this. I'll tell you who's on it.

L: Who's on it?

H.M.Jr: The Chairman of it is Guy Helvering -

L: Yes, well I'd telephone him in order to save talk with you.

H.M.Jr: Yes -

L:

H.M.Jr: Yes, and I'll tell you who's on it. I put practical fellows on it. I put on Guy Helvering; I put on Julian; I put on Mrs. Ross and Steve Gibbons, and there was a fifth person, I forget who it was. Oh, Jackson.

L: Jackson.

H.M.Jr: Now, there were five people, all that I call practical politicians and all of these things are referred to them -

L: Well, let me -

H.M.Jr: See?

L: Suppose I take it up with Gibbons or Julian.

H.M.Jr: Sure, and those fellows are practical fellows -

L: That's right.

H.M.Jr: - and I - we've got such a big department and all this stuff that ever comes up I refer to them, and I've taken their recommendation every time.

L: When the - I didn't think you had any force up there.

H.M.Jr: Oh, no, oh, no. We don't -

L: All right.

H.M.Jr: We don't - we don't - I don't - I mean, they tried to drag - to drag us in on this Ohio thing -

L: Yes.

H.M.Jr: - and I said, that's not our job; we don't have any fellow who hasn't paid his income tax, or fellow who's a bootlegger; we look into it.

L: Well, that's all right; that's down your alley, but this is not.

H.M.Jr: No.

L: Well, I'll straighten Moore out and I'll tell him that -

H.M.Jr: I appreciate your calling me.

L: - you didn't know anything about it. Somebody - some very close friend of his had telephoned him and he came to my apartment with it and was so disturbed I wanted you to straighten him out.

H.M.Jr: I - I - if you don't get satisfaction, I'll take care of it personally.

L: Well, no, no, it isn't any use. I'll-suppose Gibbons is the best man to take it up with, isn't it?

H.M.Jr: Yes, I mean, he handles it and that's the group that I got - all of this sort of complaint, I shove everything over to them.

L: Well, I'll get him right now.

H.M.Jr: All right.

L: Goodbye.

CONFIDENTIAL

April 15th

Mr. Janusz Zoltowski, Financial Counselor, and Mr. Henryk Gruber, President of the Postal Savings Bank of Poland, came in to see the Secretary to-day. The following is their conversation:

- J. Z: I want you to know Mr. Secretary that the New Deal is very popular in Poland. Mr. Gruber, who is head of the most important bank in Poland is very anxious to have a talk with you.
- H.M.Jr: Is yours a government bank?
- Gruber: Yes.
- H.M.Jr: Do you have control of exchange or is it free?
- G: Free.
- H.M.Jr: Are you tied to the pound or the Franc?
- G: Our policy is independent. We belong to the gold bloc but we are independent. We will remain on the gold standard.
- H.M.Jr: Have you devalued since the war?
- G: Yes. 11 years ago.
- H.M.Jr: In this movement of gold - does that affect you?
- G: More or less no. We have no trouble with the banks in our country.
- H.M.Jr: Do you have a favorable or unfavorable balance of trade?
- G: Favorable.
- H.M.Jr: Somebody told me the other day that you were contemplating changing the cotton mills in Poland so that you could use Brazilian cotton instead of American cotton.
- G: No. I have not heard anything about this. We have very nice relations with the United States.

- H.M.Jr: When Belgium devalued, did that have any effect on you?
- G: No.
- H.M.Jr: At these meetings that take place at Basel, is Poland represented?
- G: Yes.
- H.M.Jr: How long can Holland and Switzerland stay on gold?
- G: It is very difficult to say.
- H.M.Jr: Is your unemployment getting better or worse?
- G: A little better. We now have about 360 thousand unemployed. The largest number we ever had was 400 thousand.
- H.M.Jr: You do a very large business with Russia?
- G: Yes, but our biggest business is with England. We send sugar and bacon to England. We have a favorable balance of trade with England and they give us all facilities to export.
- G: What is the policy about the dollar? Will the dollar stay at this level or will it go down? I hope you do not mind my asking you these questions but if you feel you do not want to answer them I will understand.
- H.M.Jr: We live from day to day and are on a 24 hour basis. We do not know what the rest of the world is going to do, but if things stay as they are we are satisfied. We have had de facto stabilization for 15 months. As I said, we are satisfied with things the way they are to-day but we are not going to permit ourselves to be in the same position that we were in in 1932 when England went off gold. We think it is England's next move. Our business is good, we have a tremendous export business but we cannot say that this is the policy for the next year or two as we do not know what Europe will do the very next day. For the moment, I say we are perfectly satisfied. After all, the dollar has been more stable than any other currency for 15 months. I believe that England is the stumbling block to stabilization.

- G: On your four billion eight, how are you going to raise the money?
- H.M.Jr: Through borrowing - interest bearing bonds.
- G: Your regular bonds or special bonds?
- H.M.Jr: Regular bonds.
- H.M.Jr: If you will read the speech I gave last night I believe it will answer many questions for you on our financing.
- G: Do you think it is possible to have an International Conference for stabilization of all currencies?
- H.M.Jr: It is perfectly possible and it is the sensible thing to do.
- G: You are right. I am also of the same opinion.
- H.M.Jr: The Chancellor of the Exchequer constantly says that England is not ready for stabilization. What England would really like, I think, is for all of us to stabilize and leave her out but of course that would not be very practical.
- H.M.Jr: We are ready at any time to talk co-operation about money with any country.
- G: My opinion is that there is only one way and that is to have an International Conference.

April 15th

Last Tuesday, April 9th, I called on the President just after Harold Ickes had left him. I told the President that Ickes seemed pleased and while I was sitting there Miss LeHand came in and said that Ickes had stopped on his way out to see her and said "I went in to see the President with a chip on my shoulder but I am entirely satisfied." Heavens only knows what the President promised him. His decision would be in connection with the 4 billion 8.

The President asked me to become a member of the Allotment Board and I told him that I would like to think it over as I did not know whether I could serve him best there or working on the following projects for him:

1. Overlapping federal, state and municipal taxes.
2. The American dollar bloc including North and South America and China.

I told him I had sent a man to Belgium and England and was sending one to Mexico. He said "Fine. We ought to go ahead and try and get some of the South American countries, with the exception of Brazil and Argentine who are feeling at present unfriendly towards us, on a gold and silver basis." He said, "you know I started that with the President of the Republic of Columbia. You ought to send somebody as an unofficial ambassador to these countries and tell them that we would lend them gold against which they could issue paper money," and then the President said, winking one eye, "we will keep the gold here in this country as collateral." I simply roared with delight at this suggestion and I said, "certainly your Yankee-Dutch ancestry knows how to make a good deal. The difficulty will be to find somebody whom we could send."

I told him about the answer the British gave Phillips on the question of stabilization and I furthermore told him that I told Coolidge that I did not want him or anybody from the State Department in the future to talk to the British on stabilization, and that I would only talk to them myself when I had definite instructions from the President.

I found the President in an excellent humor and very friendly.

I showed the President the copy of the telephone conversation that Crane had with Cariguel. When he looked at it he roared with laughter, and he saw that I first thanked the French for shutting down on St. Pierre and immediately in the next sentence offered them a credit of 5 million dollars.

He said "don't you think this is a little obvious Henry" and I said "I never thought of it in that way but I think you are right". I said "what harm does it do" and he said "I guess none".

Thursday about 4:30 Herman Oliphant and Lochhead both hitting me simultaneously - Coolidge was in New York checking up on the bond market - Oliphant brought to my attention the fact that silver was selling above 64 $\frac{1}{2}$ ¢ in New York and Lochhead letting me know that Crane had been requested by the Central Bank of Holland that we help them out by buying some gold. In talking over the matter the three of us decided that on account of the tax on silver we better increase the price. We agreed that 70¢ would be about right. Subsequently Oliphant thought we ought to raise it 5% of \$1.29 which is 71¢ plus. I told him to draw up the order both ways and let the President choose.

I called the President on the phone about 4:30 and told him that I wanted to tell Holland that we would buy 10 million dollars worth of gold if necessary. He said "I hate to see so much gold coming here" and reluctantly he agreed.

I then told him about the silver and he was quite jocose about it. He agreed that we would have to raise the price. I told him that Oliphant said our troubles would be over if we raised it to \$1.29 and he said "what" so loudly that the phone just crackled. He said "what has come over Oliphant".

I then called up Crane and we fixed up a cable to send to the Dutch. Oliphant took the papers over to the President at about 7:30 and got the papers signed on silver. The interesting thing on our offer to Holland has been that they never made use of it and it seemed to have been a turning point for the better for them.

We ought to be building up a very friendly feeling for the United States government in countries like Holland and France.

Friday night I started to worry about the 4 billion 8 setup as the idea of Harold Ickes as Chairman of the Allotment Board and Harry Hopkins in some nondescript job just made me sick. I felt that nobody would have the responsibility and the thing would fall between Hopkins and Ickes and would be a mess. I racked my brain to try to think of somebody new who could take hold and do the job and I decided that there was nobody in Washington who could do it better than Joe Kennedy - outside of myself. Of course I should not and could not do it because I must not spread myself too thin on too many jobs. I called up the President Saturday morning and told him that I was terribly worried and wanted to talk to him about the 4 billion 8 setup.

I saw him Saturday a little after two and spent an hour and a half with him only being disturbed once. Miss LeHand came into the room with a small amateur moving picture

camera and one of those machines to test light. She stood in front of the President, pointed the camera at him and fussed. After a minute or two the President stopped talking and just waited. Missy disagreeably said, "why don't you go ahead with your work" and he said, "I can't work with that damn thing pointed at me". She, like a spoiled child, said, "oh if that is the way you feel about it" and walked out of the room. After all we were talking about fairly important things and her behavior was childish. After she left the President said something which he has never said to me before. He said, "I stopped talking because I didn't want Missy to hear what we were saying". I then said to the President, "I want to talk to you as one Dutchess county neighbor to another". He said, "fine".

I said, "Franklin, the way you have things set up now with your 4 billion \$ you can't help but be a failure. If that fails you can't be reelected". He said, "you are right". I said, "I have a suggestion for a man to head it up" so he said, quick as a flash, "I have a man also". I said, "should I give you mine first". He said, "yes". I said, "my man is Joe Kennedy" and he said, "mine is Frank Walker". I said, "there is no question about Walker's integrity and ability and I think he demonstrated ~~that~~ when he was here before that he could not handle Cabinet Members - he is too gentle. Kennedy has made an outstanding record and I feel he can handle people. He is popular on the hill and with the newspapermen."

I could see the President did not like my suggestion. I said, "what is the matter" and he said, "the trouble with Kennedy is you always have to hold his hand". You know I told you that Ray Moley usually gets upset once a month while Kennedy gets these notions at irregular intervals but he calls up and says he is hurt because I have not seen him"and, in other words, the President said Kennedy is too tempermental.

He said, "then I have another very difficult problem. That is Louis Howe. About February 10th Louis gave me a chart on how he proposed to set up the 4 billion \$. Louis has it absolutely fixed in his mind that I promised him to carry it out this way and, he said, I am afraid if I do not he will die." I said, "well after all, Franklin, Louis' days are limited and we have the whole welfare of the country at stake and I think there is a limit that you can go to satisfy Louis." "Well, the President said, "I have either to do it ~~at~~ the way Louis wants me or else camouflage it so Louis thinks I am doing it the way he wants me to! He then brought out Louis' chart and he looked at it and said, "it does not make head or tails" and I said, "no it does not". He said, "I have an idea. I am going to appoint a man whom I am going to call Assistant to the President in charge of Public Works". I said, "that is grand" and the President said, "this man will really run the show".

I then again went after him on Kennedy and he sat back in his chair and did what he very rarely does "said absolutely nothing" for a few minutes. He then turned to me and said, "I think that is all right". I then said, "if you have time I would like you to go over my radio speech and he read it and kept saying "this is fine - this is grand" and then took a pencil and started to copy out most of the figures to use for his talk before the Gridiron Club. He said, "do you mind if I use your speech" and I said, "Franklin, you can have anything that I have except my wife". He laughed and seemed pleased.

When I started talking to him about the setup of the 4 billion 8 I introduced my remarks by saying "please remember, Franklin, that I cannot get anything more out of politics in this life so what I am going to say to you is motivated by the desire to serve my country and you and nothing else". He said he would call a meeting on the 4 billion 8 for Sunday but which meeting never took place.

(As I remember it Bell, Upham and Gaston helped Mr. Morgenthau write this speech - Mr. Morgenthau supplying the ideas. Mr. Morgenthau left it entirely to Bell to supply the correct figures and almost the very last minute, that is, the day that Mr. Morgenthau gave his speech he discovered that the figures did not look right to him. Bell had made a mistake and Mr. Morgenthau spent hours working on this speech on Sunday. The men really had no speech for him even though he supplied the ideas until he actually wrote it himself.)

* * * * *

To-day's lunch was spoiled by the fact that Hugo Black was there for about half an hour discussing with the President whether or not they should give out the information in regard to ship mail contracts. The President told him that if Black would ask him for the information he would see that he got it at once and that Black could give it out. Knowing nothing about it I could not get the significance but evidently there had been a big discussion previously.

I showed the President an abstract from the Jim Watson case. He asked me to wait until the indictment on Finkelstein was announced and immediately after this to file the Watson case for criminal prosecution. This will make it appear that we could not help ourselves and, therefore, will not disturb Watson's friends so much. Personally I would much rather file it at once but I didn't feel it made very much difference if we had to wait a couple of weeks and I do not like to fight over unimportant issues with the President.

I told him that we heard from the Bank of France and they had again inquired about stabilization. He suggested that I read the report on money at the Ottawa Conference and also the monetary statement given out immediately after the London Economic Conference at London by the English. He thought that we could get the various countries in Europe to agree on stabilization after they had declared and established their internal price level and then eventually get England to join us. I told him that I thought that we never could get stabilization in the world until one of the important countries was flat on its back.

He asked me what I thought of Senator Couzens to succeed Jim Moffett of the Housing Organization. I told him that I did not like Couzens and I could not see how appointing him would help the Administration. He said, "if we took care of Couzens maybe we could elect Governor General Murphy of the Phillipines as United States Senator from Michigan". I said, "that is an idea". He asked me to find out how able Stuart MacDonald, Moffett's first assistant, is. I told him that I would. As I got up to leave I asked him if there is anything new on the 4 billion 8 and he said "no, I was too busy yesterday to do anything about it". He said, "I think that Joe Kennedy is the man to be in charge and", he said, "I think that Ex-Congressman West would be better at the Information Bureau than Frank Walker and we could save Frank Walker for something else.

TREASURY DEPARTMENT

Washington

Release Upon Delivery,
7 P.M. Sunday, April 14, 1935.

Press Service
No. 4-76

A speech to be delivered Sunday, April 14, 1935, at 7:00 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 and Columbia Broadcasting System.

You will see in tomorrow morning's newspapers that the Treasury has called for redemption on the 15th of next October all of the Fourth Liberty Loan Bonds whose numbers end in three or four. The last of the Liberty Loan Bonds have now been called. And so in this seventeenth year after the Armistice, these famous securities move from the realm of Government finance to the pages of history.

This Administration has now called for redemption eight billion dollars worth of Liberty Bonds. We did not have to call them; they were not due; it was good business sense that prompted our action. The bonds called today bear four and a quarter per cent interest while the average interest rate for all Government securities now outstanding is only 2.86.

It is impossible to estimate accurately how much we will save in interest on this new refunding because it has not yet been completed, but I can tell you how much we are saving on our previous \$5,000,000,000 of refundings. In round numbers it amounts to \$65,000,000 a year. If we do as well on the remainder, which seems to be a fair assumption, there will be an additional saving of \$35,000,000 a year. That makes a total of \$100,000,000 which will not have to be raised next year from the taxpayers.

Refinancing on this scale has the quality of high adventure. In England, when they undertook a similar operation to reduce debt charges, the Chancellor of the Exchequer felt called upon to ask that no new capital issues be offered during the period of the conversion; and that ban remained in effect six months. The

operation was accompanied by appeals to patriotism; indeed it resembled one of our war time Liberty loan campaigns. Here we have handled this same transaction so easily, and in such a commonplace manner, that many people have undoubtedly been unaware of its nature or significance.

But the benefits of this transaction do not end with the saving of \$100,000,000 a year.

When we began our refinancing early in 1934 we faced a peculiar situation; there was plenty of money, and presumably it ought to have been cheap, but it wasn't. The bond market was stagnant and prices were low. Scarcely any refunding was going on. There was a log-jam in the capital market. The Federal Government took the initiative by refunding the first five billions of high rate Liberty bonds into lower rate and longer bonds. In the fifteen months between January 3rd, 1934, and April 3rd, 1935, the average price of representative municipal bonds rose twenty-four per cent. High grade railroad bonds rose 14.4 per cent. Public utilities bonds rose 12.1 per cent. Industrial bonds rose 14.7 per cent. These increases in the market value of bonds reflect the decrease in the cost of money.

The great importance of cheap money to improve business conditions is not generally realized. The great corporations came into the market to attend to their necessary financing. The financial pages of your newspapers reflect the impressive change in the dimensions of their operations. Let me give you the figures. During March, 1934, the total volume of corporate refunding amounted to only twelve and a half million dollars with no lowering in the interest rate. But during March of this year, corporate refunding exceeded one hundred and twelve million dollars — or nine times as much as during the previous March. And the interest rate on the new issues this year shows an average decrease of almost one and a half per cent which meant a saving of more than one and a half million

dollars. That is real refunding. It shows conclusively that the financial log-jam has been broken.

These developments have a very definite meaning in your every day life. They affect not only the taxpayer but every stockholder, producer, consumer and worker.

We are now just on the eve of seeing the substantial benefits of this fundamental change.

There is no longer any reason why capital should not flow normally into the arteries of business. In fact, with the splendid cooperation and wise guidance of the Federal Securities and Exchange Commission, it is doing so.

Although you may not have followed all this refinancing in detail, you have undoubtedly read headlines referring to the New Deal expenditures. Nobody denies that there have been expenditures — and large ones — but let us go into that subject realistically.

Soon after this Administration came into office, March 4, 1933, the President submitted a comprehensive recovery program which the Congress approved. As the President clearly pointed out in his first budget message in January, 1934, that program called for an expenditure of \$9,300,000,000 for the two year period ending June 30, 1935, above the estimated income. The deficit at the end of twenty-one months of that two year period was \$6,300,000,000. With less than three months to go to complete the two year period, we are certain that expenditures will be \$2,000,000,000 less than that original estimate.

Naturally you want to know what the Government got for its money. Emergency expenditures caused the deficit and here are the items: Loans made by the Reconstruction Finance Corporation, Public Works Administration, and various other Governmental agencies, \$1,700,000,000.

Public Works under which head I include the Boulder Dam, rivers and harbors, the Tennessee Valley Authority's projects, Subsistence Homesteads, and the vast program of Federal aid for good roads, \$1,200,000,000.

The remaining \$3,400,000,000 was expended for relief of American citizens in distress. This was the grand total for all forms of relief and includes even the \$600,000,000 for the Civilian Conservation Corps, whose splendid work is worth every dollar of its cost.

In order to get the true picture it is important to remember that these expenditures are not loss or waste. We have acquired values for them. From the loans of \$1,700,000,000 we may expect repayments in substantial amount which will go to reduce the public debt. The \$1,200,000,000 for public works is invested in dams, roads, buildings and other permanent improvements. These two items account for nearly half of the deficit.

The greatest single item of expenditure has been for relief. We have furnished food, shelter, clothing -- and the self-respect which comes of having a job -- to millions who needed these things as never before. That item will continue to be the bulk of the real deficit.

Now let's take up the Public debt of the Federal Government. When this Administration came into office the gross public debt was a little less than twenty-one billion dollars. As of March 31st this year it had increased in round numbers to \$28,800,000,000, the largest in our history. Although there is no doubt anywhere about our credit being good -- if it were not we could not have refunded all of those Liberty bonds -- some people raise a point about the cost for interest. But let us see how this cost at the present time compares with the cost in past years. The annual interest cost on today's debt amounts to eight hundred million dollars. And you would naturally suppose, in view of the fact that the debt is

the largest in our history, that the interest cost must also be the largest. But it is not.

We are carrying the greatest National debt in our history for less money than it cost back in 1925, when the National debt was smaller by eight billion dollars.

Now let's look ahead and see, first of all, what certainties the future holds. In July and August we know that we are going to retire \$674,000,000 of interest bearing Government securities. They are the Panama Canal bonds and United States Certificates that have already been called for redemption. The cash for that transaction is now in the Treasury.

Then we are going to finish the retirement of the Liberty bonds previously mentioned. For all practical purposes, this gigantic operation will be out of the way when the time comes to raise the bulk of the money needed for the President's new work-relief program.

In his message submitting the Budget for 1936 to the present Congress, the President said:

"If this Budget receives the approval of the Congress, the country will henceforth have the assurance that, with the single exception of emergency relief, every current expenditure of whatever nature, will be fully covered by our estimates of current receipts. Such deficit as occurs will be due solely to emergency relief, and it may be expected to decline as rapidly as private industry is able to re-employ those who now are without work."

Since the President delivered that message, new developments that would bear upon his forecast have been mostly favorable.

In looking ahead we are cheered by the fact that tax receipts for the first nine months of the present fiscal year are \$145,000,000 above the estimates.

On June 30, 1936, we should have, according to the budget estimates, a

National debt of thirty-four billion dollars, but those estimates did not take into account the retirement of the \$674,000,000 of Government securities which I mentioned a moment ago.

The work relief program, for which Congress recently appropriated four billion, eight hundred and eighty millions of dollars, is scarcely started. In view of these two facts and our present comfortable margin within the budget estimates, it is entirely possible that we shall find on June 30, 1936, a National debt of considerably less than thirty-four billions.

In conclusion: Let us not forget a few central facts and figures. The New Deal expenditures are represented by money still right here at home. Some of it has been used to thaw out the frozen assets of banks for the benefit of depositors. Some of it is turning the wheels of industry. The greatest part of that portion which we shall not recover, in a material way, has been used to save human life, and to preserve the morale of our people.

Thank you and Good Night.

April 15, 1935.
Monday.

296

H.M.Jr: Hello.

Fiorello

LaGuardia: Hello, Mr. Secretary?

H.M.Jr: Yes.

LaG: Good morning, how are you?

H.M.Jr: Fine.

LaG: Well, first of all, congratulations on that speech last night.

H.M.Jr: Did you like it?

LaG: Well, I - I not only like it, but I think it's the one - it's going in the right direction to permanently reducing the interest charges on our permanent debt. I think that is the greatest - the greatest result of the in the whole service.

H.M.Jr: Well, that's nice of you to say -

LaG: Gosh, you know that - it's a big item - it's an enormous item.

H.M.Jr: People didn't realize it.

LaG: Why, they don't realize it, and to think, Mr. Secretary, if we could do that with our railroads and industry, every railroad in this country would be solvent.

H.M.Jr: You're right.

LaG: That's the one thing I've been driving at in Congress for the last ten or twelve years - don't drop it; I'd keep it right up.

H.M.Jr: Well, of course the point - not only do we benefit by it, but every other unit of government benefits too.

LaG: Certainly, certainly. Now, Mr. Morgenthau, I - I just talked to and I'm going to see Carlyle and tomorrow (what time is that, eleven o'clock?) at eleven o'clock.

H.M.Jr: Yes.

LaG: Now, very confidentially, they're just balking a little bit because I told them I would not say yes officially until we met in Washington. They want to take the ball away from the President, and I want the President to hold the ball.

H.M.Jr: Sure.

LaG: Now, it's the nicest thing that can happen if - to have this thing settled in Washington where I can publicly acknowledge the cooperation of the Federal Government in keeping with the President's home power policy. So tomorrow we're going to meet on the terms - as far as concerned, and I don't think there's anything left but the physical drafting of the contract.

H.M.Jr: I see.

LaG: - but I'm going to keep on dodging until we meet in Washington. I told that to the President and it pleased him very much -

H.M.Jr: Fine.

LaG: - and I think it's a nice thing to do.

H.M.Jr: Well, then -

LaG: going to just buck every

H.M.Jr: Sure.

LaG: - seemed to know that they have some hope for the future.

H.M.Jr: That's right.

LaG: So tomorrow right after the conference, I'll ring you up.

H.M.Jr: Fine, and you know we were getting along splendidly on that liquor checkup, you know.

LaG: Oh, yes.

H.M.Jr: You'll be interested in knowing that some of the people who told me, who have no ax to grind, that New York City today, as far as liquor is concerned is cleaner than it's been in years.

LaG: Well, that's - it's they know it doesn't pay

H.M.Jr: They say that there's less bootlegging in New York today, and it's cleaner than it's been in years.

LaG: We're washing it, Mr. Secretary.

H.M.Jr: Right.

LaG: And you know we've thrown a lot of business to the hotels and taken it away from those boats, too.

H.M.Jr: Right.

LaG: All right, then I'll phone you right after the meeting tomorrow.

H.M.Jr: Thank you.

Liberty Bond
44-14137

AM 209 J

ABSTRACT OF COMMENTS ON RADIO ADDRESS

Ben Talbot, National Stockholders' Society, Incorporated. "The United States Treasury, under your excellent management, is to be congratulated upon its handling of national finances under great difficulties. We are in line for an era of much better feeling".

Harry Freedman, Kingston, New York. "I want totell you I listened to your radio address here in Kingston Sunday, and it was the finest and clearest message you ever delivered over the radio. It was a pleasure to listen to you, and very glad to hear the Treasury Department is handling the financial policy of the New Deal in a most efficient and successful way. Good luck to you!"

William M. Sporborg, Vanderbilt Hotel, New York City. "May I avail myself of this opportunity to congratulate you upon ~~your~~ splendid, enlightening talk over the radio to-night? Your voice came over pleasantly, ~~stutter~~ distinctly and convincingly, and your remarks surely will make many new friends for you and the Administration. Thousands of thinking people here are proud of the record in the office you so ably fill, and I could not resist the opportunity (and liberty) of writing you to-night after listening in. More power to you and best wishes for your good health and continued success."

Henry
Harry H. Heimann, Executive Manager, National Association of Credit Men. "I thoroughly enjoyed your radio speech."

Morton Engel, Philadelphia, Pennsylvania. "Congratulations on both the calling of 4 1/2% Liberty Bonds and your tone of voice on the radio, but the local jam on real estate is on as ever, and unless all ~~United~~ United States bonds are called and replaced by currency or credit, thrifty men will suffer. I hope you will try beneficial measures for the many small investors."

Anonymous. "I hope you read this but doubt if you ever receive it. Your radio talk was very clever in concealing what you do not care to have brought into the open. Namely, the issuance of interest bearing bonds to the bankers by the four billion, etc., thus tightening the iron slave ~~and~~ collar upon the necks of the American serfs. How ~~about~~ about it? Can you ~~make~~ an address on that question?"

James L. Preston, Baltimore, requests a copy of the address. No comment.

Stephen Bell, ~~Clifton~~ Clifton, New York. "I have just listened to your broadcast. I must confess that I cannot understand the persistence of the idea that low interest rates are a good thing for the country. As unemployment of labor increased, unemployment of capital has also increased and interest rates have fallen. When employment is general and wages are high, the same thing is true of capital and interest. The theory that low interest rates are beneficial implies that the same is true of wages which, of course, we don't believe. Yours for straighter economic thinking."

George H. Rockwell, Cambridge, Massachusetts. "Your talk last evening over the radio was not only very well delivered but also very interesting. The subject ~~it~~ could not have been presented in a better way. I have heard this from two different sources, and I was also impressed myself."

Whitfield Tuck, President of National Franklin D. Roosevelt League for President. "I would like to distribute in and ~~sent~~ about Boston, Massachusetts, as many copies of your talk on radio last evening. It was fine and will help much to win in 36, in this section. If some of same can be "franked" to mail over the State it will be of much help."

David Vogel, New York City. "I listened attentively to you ~~speech~~ over the radio on Sunday last, April 14. Very clear and distinct and very good".

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ABSTRACT OF COMMENTS ON RADIO SPEECH

April 22, 1935.

Letters and clippings from Dr. Myers of the Farm Credit Administration and the Publisher of the Alabama Journal have been acknowledged for the Secretary's signature and are not abstracted here.

Mr. I. T. Nakdimen, President of the City National Bank of Fort Smith, Arkansas. "I have read with a great deal of interest your speech of Sunday, April 14th. Every American citizen should congratulate you upon the able manner in which you are handling the Treasury. You are saving the country millions upon millions of dollars. If the European countries had paid the twelve billions they owe, our debt would have been decreased four billions." Mr. Nakdimen "questions the fact that the debt mentioned is the largest in our history and asks for correct figures to set him right".

Mr. D. T. Bateman. "Your radio address Sunday on finances of the Government was very interesting. Will you send me a copy of it as I shall be glad to study it for points I did not get?".

State Senator William T. Byrne of New York has already written, but says in another letter, "I know of nothing that has come to me since President Roosevelt's inauguration that was so heartening and stimulating as your address, and I sincerely hope that you will continue to deliver similar addresses when you feel that they are appropriate as to time, and will possess news of similar character to be passed on to the people of our country who are waiting tidings of progress and encouragement."

L. E. Hallsted, Albion, Nebraska. "I was very much interested in your talk over the air last Sunday night on money. I am glad to know that you are going to save money on interest, but would like to know why you issue bonds and pay interest on what the Constitution gives Congress the right to make".

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ABSTRACT OF COMMENTS ON RADIO SPEECH

April 18, 1935.

Mr. M. M. Rose, Marietta, Ohio. "Your nationwide broadcast address last evening clearly setting forth how the action of the Treasury in calling in the Liberty Bonds and refinancing the same at a lower rate of interest had broken the "financial log jam" meets the approval, I am sure, of the great majority of the people. Permit me to state there is another log jam that would help materially if broken. The banks in many of the small cities in rural districts are charging 7% - national and state banks as well. Only recently banks were ordered to reduce the interest on savings to 2 $\frac{1}{2}$ %. 7% is out of line with present conditions." (Mr. Rose signs himself a Roosevelt Republican)

Mr. Ed. R. Maver, Amarillo, Texas. "That was an excellent and timely radio speech. It will help more than anything said in a long time to recapture business confidence. The credit structure must be restored this year -- or else!"

Mr. Charles M. Smith, Indianapolis, Indiana. "Your radio speech was interesting from one point of view, but to me it indicated how much the United States Government is under the thumbs of a certain group of private bankers * * * Why don't you issue non-interest-bearing United States currency to retire all United States interest-bearing bonds, thus kicking out the bankers."

Mr. M. E. Messer, College Park, Florida. "You made much of the saving in interest on the national debt * * * what about the interest on four billion, eight hundred million to be squandered by the New Dealers. * * * Moreover, by reducing the interest rate you also reduce the purchasing power of the investors class by a like amount at a time when purchasing power is sorely needed to bolster up industry." Mr. Messer encloses some clippings attacking the Administration.

Request for a copy of the speech from E. W. Morgan, Berrien Springs, Michigan. No comment.

W. F. Oliver, Vice President of the Production Credit Corporation of St. Louis "It was indeed a pleasure to have heard you on the radio Sunday afternoon. You are certainly rendering the people of the United States real service".

"Your radio release of Sunday afternoon was most enjoyably received . . . permit me to say it was extremely helpful to me in that it presented in an understandable way some portion of the National Administration's problems and viewpoints. As State Treasurer of the State of South Dakota, I would very much appreciate the receipt of a copy of that address"

G. F. Bagge, Manufacturer of Coin Operated Devices. The writer was rather pleased to observe your statement that the financial log jam has been broken, that is good news. I hope that the effect can be made available to people who have been handicapped during the last few years, particularly in obtaining working capital.

Everette C. McKeage, Attorney in San Francisco. Asks for a copy "of your very interesting radio address of April 14th, I should feel greatly honored to receive one from you".

Inspired by the Radio address, but not commenting upon it directly, Mr. W. B. Wiegand, New York City, sends in a very critical editorial from the Herald Tribune and says that he would honestly like to have a well considered reply to the criticisms made by the editorial. Referred to Mr. Gaston.

Also, two letters which spoke briefly of the address and say that if Government finances are in such good shape, the Government should certainly pay its own bills more quickly. One writer has reference to a bill for 7 month's occupancy of his house by an agent of the War Department, payment for which has been delayed in the General Accounting Office. The other calls attention to the statement of Mr. Sargeant, President of the Chicago and N. W. R. R., saying that the reason his R. R. cannot pay bondholders is that they have been unable to collect a million dollars which the Treasury owes against freight rates for cattle carried last year. The writer, a New York business man, believes that this reflects upon the integrity of the Administration.

ABSTRACT OF LETTERS COMMENTING UPON RADIO SPEECH

April 17, 1935.

~~AA~~ - Full

Four favorable comments and four criticisms or questions. Also a letter from Raymond Moley acknowledged separately and not included in this abstract.

David Cohen, West End Avenue. " Allow me to congratulate you on your talk * * * telling us what our present Administration has done. Your expression that the money spent for relief was well spent, everyone felt it came from your heart. All I can add is that our beloved President with the help of the Administration saved our beloved country. In conclusion, the country is with you -- keep up the good work! "

R. H. Tremaine, Ithaca Trust Company. "I listened carefully and with pleasure to your radio talk last evening, giving as it did a clear and impressive statement of the U. S. finances. Your talk was informative and in my judgment tended to correct many of the incorrect statements which have been featured in some newspapers. I want to congratulate you on your very successful and businesslike conduct of your responsible position."

Edward Frensdorf, Hudson, Michigan. "Your radio address of Sunday was indeed very effective. Permit me to suggest that the Administration make more frequent use of you on the air. May I ask that you mail me six copies of that talk as our newspapers today abbreviated too severely to answer the purpose I wish to use it for. In my opinion we sorely need frequent addresses from Secretaries Roper and Hull - they are taken seriously by the public."

J. H. Gibbs, La Crosse, Wisconsin. "If it is possible will you kindly send me a copy of the splendid speech you made today. I want it entire if I can get it and its not likely that the papers will print anything but short extracts of it. You see the Hearst papers don't like you, and the Chicago Tribune is sometimes lacking when it tries(?) to tell the truth, and we don't get lots of things which the Administration is trying to do except criticism. With best wishes, "

- Critical -

A telegram from Portland, Oregon, calling attention to letter written on February 28th about Treasury bond registration which is necessary to pay judgment creditors. No acknowledgment to date. "Here is a log jam in your own Department - please break it." (Referred on with a very special red tag!)

April 17, 1935.

Frank Meisel of Pennsylvania, who is on the Relief, asks where you got your figures as to the amount of money spent by the Relief for rent. He is allowed \$3.75 a month for rent on a house which shelters two families. He wants to know if somebody else got his share.

Donald W. Campbell, Worcester, Massachusetts, asks "Are the savings in interest to the United States of America which you spoke of in your radio address yesterday evening of a permanent nature? What percentage of the national debt matures within five years time? The tenor of your address indicates that the Government's position is in a comfortable condition. Can any institution, public or private be "comfortable" with a heavy debt of which more than 25% matures within five years? Is it entirely fair to compare corporate refunding operations of one month last year with the same month this year without comment upon intervening circumstances or future prospects?"

Rev. Daniel Woodward, Randolph, Wisconsin, quotes a great many figures from the American magazine of January, etc., which are in conflict with those quoted in the radio address. He asks the Secretary to harmonize these two sets of figures. "I personally want to be fair in judging officials for I know from years in official life how easily it is to criticise, but the Administration must remember that keen thinkers, writers and speakers are on the public official trail. Most unbiased observers believe we are deeper in the mire of this disastrous mess than ever before."

209 P

TREASURY DEPARTMENT

Washington

Press Service
No. 4-75

FOR RELEASE, 7 P.M. SUNDAY,
April 14, 1935.
4-13-35.

Secretary of the Treasury Morgenthau today announced the call of the balance of the Fourth Liberty Loan 4-1/4 percent bonds of 1933-38 for redemption on October 15, 1935. The Fourth Liberty Loan Bonds included in this fourth and final call for redemption, amounting to about \$1,250,000,000, are those bearing serial numbers ending in the digit 3 or 4.

Bonds of the Fourth Liberty Loan were originally issued under date of October 24, 1918, in the amount of about \$6,965,000,000. Subsequent to their issue, and prior to the first call for partial redemption, which was made on October 12, 1933, nearly \$700,000,000 of these bonds were retired. The first three calls for partial redemption paved the way for the retirement of about \$5,000,000,000 more, leaving about \$1,250,000,000 outstanding. Of the \$5,000,000,000 of bonds included in the first three calls, about \$4,315,000,000 were exchanged for other interest-bearing obligations, and about \$320,000,000 more have been paid in cash. Most of the remaining \$365,000,000 will be redeemed on April 15 or shortly thereafter.

The Secretary stated that it is probable that prior to October 15, 1935, holders of the Fourth Liberty Loan bonds included in the fourth and final call for redemption may be offered the privilege of exchanging these 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 FOURTH AND FINAL CALL FOR 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 3 or 4 (such serial numbers in the case of permanent coupon bonds being prefixed by the corresponding distinguishing letter C or D, respectively), are hereby called for redemption on October 15, 1935, on which date interest on such bonds called for redemption will cease.

2. Full information regarding the presentation and surrender of Fourth 4-1/4's for redemption under this call will be given in a Treasury Department Circular to be issued later.

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Treasury Department,
Washington, April 13, 1935.

April 15, 1935.
Monday.

210

Crane: Mr. Secretary, I just talked with Cariguel.

H.M.Jr: Oh, yes.

C: As a matter of fact, he called me.

H.M.Jr: Yes.

C: I didn't call him.

H.M.Jr: He must be getting extravagant.

C: Yes, yes, he talked with me for ten minutes.

H.M.Jr: My God, lot of francs!

C: He said that the Swiss and Dutch situations were quieter today -

H.M.Jr: Yes.

C: - and there wasn't quite as much pressure, although it would continue to be some.

H.M.Jr: Yes.

C: He said that the Bank of France was continuing to lose gold every day to London.

H.M.Jr: Oh, really?

C: Yes. He said that strain was continuing and they're also losing it to Belgium. Now, this was the significant part of what he had to say. After a little discussion about the exchanges he said to me - I was really about ready to cut off.

H.M.Jr: You were ready?

C: Yes, I thought he was through.

H.M.Jr: Yes.

C: And he was quite anxious to hold me on and he said, do you think we're getting any nearer to exchange stabilization -

H.M.Jr: Really?

C: And I said, well, I don't know, Cariguel, about that, but if you want my opinion, I think it's very important for us to keep in close touch.

H.M.Jr: Yes.

C: I said, as you know, I told you the other day the Secretary was very anxious to play ball closely with the French, and I said my own personal view is that that's a pretty important offer, and I said I think you people on that side ought to take advantage of it and try and keep in close touch with us and with the Treasury, and he said, yes, he agreed to that. I said you never know when something may turn up and I said the disposition here is to play very closely with Paris rather than your friends across the channel -

H.M.Jr: That's right.

C: - therefore, I think it's important for you to take advantage of that offer and keep in close touch with us. He agreed to that, he said.

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

C: He said that Governor Tannery was very much pleased to get the message that you sent through me the other day.

H.M.Jr: Right.

C: And then he went on and he asked me this question. He said, how was the feeling about the francs over in New York. He said, I understand there are a good many rumors going around that there will be an adjustment in the franc and in some, devaluation, and I said, yes, there was a lot of talk about all of the members in the gold bloc. Of course, that sooner or later these gold currencies would have to adjust their values, and I said, how is the feeling on your side about that, and - oh, he said, I think the public over here would probably not stand for it -

H.M.Jr: I see.

C: - at any time, and then I said, well, would - do you think that the public would stand for it if devaluation were coupled with an assurance of exchange stabilization all around? In other words, as a part of a bargain, the franc might go down fifteen or twenty per cent and you'd get the exchange stabilization all around, and he said, well, he didn't - he doubted whether the public was yet in a position to swallow that -

H.M.Jr: I see.

C: Although he didn't know.

H.M.Jr: Well, let me ask -

C: It seemed to me that the significant part of his remarks was the questions he asked me about stabilization, and I'm not sure - rather I - I rather think that they may have some connection with recent conversations with the French.

H.M.Jr: Well, I think that's very interesting. You -

C: Maybe - maybe -

H.M.Jr: You send me - you send me - you'll send me a copy of that, won't you?

C: Yes, I'll dictate something and send that down.

H.M.Jr: Yes. Now, look, when the gold goes from Paris to London, that means they have to buy sterling, doesn't it? Does that movement mean sterling goes up or goes down?

C: No, that - that movement means that you sell sterling and buy francs to buy the gold with.

H.M.Jr: Oh, sell sterling.

C: Yes.

H.M.Jr: But, still sterling seems so fast - so strong.

C: Yes, well, sterling is, I think, perhaps strong today on the Budget.

H.M.Jr: On the Budget.

C: Yes. Chamberlain is making his Budget speech, you know.

H.M.Jr: I see.

C: He's got a little surplus and he's going to reduce

H.M.Jr: Well, I think the conversation is very interesting and if we keep on maybe we'll get somewhere.

C: Yes, well, I'll just dictate this. I thought you might want to know it right away.

H.M.Jr: Yes, I - I'm lunching with the President.

C: Well, that's why I called you because -

H.M.Jr: I appreciate that.

C: All right.

H.M.Jr: Thank you.

Federal Reserve Bank
Of New York

213

OFFICE CORRESPONDENCE

Date: April 15, 1935.

To: Secretary Morgenthau

Subject: Telephone Conversation with

From: J. E. Crane

Mr. Cariguel of the Bank of France.

Mr. Cariguel of the Bank of France telephoned to me at 12:15 p.m. today. He said that there continued to be some pressure on the Swiss and Dutch exchanges, particularly the former, although the position was much less acute than last week and the week before. The Swiss were losing small amounts of gold each day to Paris, he said, while the Bank of France was giving up gold daily to the London market for hoarding and to Belgium. Mr. Cariguel added that since devaluation in Belgium the Bank of France had lost 1,500,000,000 French francs gold (\$100,000,000) to the National Bank of Belgium.

Mr. Cariguel asked me whether I thought we were getting any nearer to exchange stabilization. I replied that I did not know about that although, as I had told him the other day, Washington was desirous of keeping in close touch with the French and wanted to cooperate with them in every possible way. I added that I thought Secretary Morgenthau's recent gesture in their direction was a matter of importance which I thought they should not overlook but should rather make every effort to take advantage of. Mr. Cariguel replied that he agreed with me on that point and that his people in Paris had been grateful for the Secretary's recent message. I told Mr. Cariguel that, as I understood Secretary Morgenthau's position, he preferred to play ball with the French and establish a close bond of sympathy with them rather than pay any attention to their friends across the channel just now.

Mr. Cariguel said that he understood there were a good many rumors over here about the necessity of some adjustment of the French franc and inquired whether I had heard anything of such rumors. I told him that there was a good deal of talk in our market about the difficult position of the members of the gold bloc, particularly the Swiss and the Dutch, and that I thought there was a rather general view over here that sooner or later the countries of the gold bloc would be forced to devalue although it was appreciated that they could hold out for some time longer. Mr. Cariguel said that in France the public was not prepared to make any adjustment of the franc at this time, the majority opinion in France being opposed to devaluation. I told him that there was some talk in this market that the French public might stand for a moderate devaluation of, say 15 or 20 per cent, provided they could obtain a three-cornered stabilization arrangement between Great Britain, France and the United States. Mr. Cariguel replied that he did not think the French public was ready yet to accept moderate devaluation even if they were assured of exchange stabilization between the principal countries.

JEG:KMC

THE UNDER SECRETARY OF STATE
WASHINGTON

April 15, 1935

Dear Jeff:

As you know, we try to keep our diplomatic and consular representatives abroad as fully advised as possible of developments in this country. We propose to send out the accompanying memorandum on exchange stabilization, which has been prepared by Mr. Hansen. Before doing so, however, I wonder whether you would be so good as to look it over and tell me whether you have any suggestions to make in this connection?

Sincerely yours,

The Honorable
T. Jefferson Coolidge,
Under Secretary of the Treasury.

Large -

EXCHANGE STABILIZATIONI. The Importance and Desirability of Early Stabilization.

1. Current monetary uncertainty and the disturbed foreign exchange situation, and the international complications following therefrom, are powerful factors creating business uncertainty and lack of confidence. In consequence of this uncertainty, the vast quantity of funds available throughout the world for investment are held idle, and in important parts of the world gold is still being hoarded. A substantial improvement in business conditions throughout the world awaits a material expansion in investment in fixed capital. To be sure, the revival of capital goods industries depends in part upon the progress of obsolescence and depreciation of equipment and plant, and in part upon the development of new opportunities for investment. It is, however, highly probable that there exists at the present moment a strong technological foundation for expansion in fixed capital investment, and that this is being held back by the business uncertainty caused by the monetary and foreign exchange situation. Many corporations have at the present moment a strong cash position, and are withholding the use of these funds until they feel more assured of the future. Others with strong credit position in the capital market are ready to issue securities once the prospect for reasonably safe investment appears. The banking situation is extraordinarily strong, with over two billion dollars of surplus reserves, and awaits only a revival of the spirit of enterprise based upon the return of business confidence.

The expansion of capital investment is unquestionably the most important means through which an increasing amount

of purchasing power may be poured into the community, thereby increasing the stream of money income, adding stimulus to purchasing power and bringing about by natural processes an expansion of demand and increase in commodity prices.

2. The current foreign exchange situation and the international disequilibrium which follows therefrom continues to be a potent cause for the progressive rise of trade barriers and the imposition of trade restrictions, notably in the form of quotas and exchange control. This instability and lack of balance is exemplified, on the one side, by the enormous importation of gold into the United States amounting in 1934 to well over one billion dollars, and continuing into 1935. On the other side, it is revealed in the growing network of trade restrictions, in some countries developing into monopolistic control of foreign trade, as in Germany and Italy. It is revealed also in the continued deflation in the gold standard countries and the close control and limitation of imports into those countries. Thus, while our own trade with the sterling area increased 47 percent from 1932 to 1934, our trade with the gold bloc countries increased only 3 percent in this period. Indeed, from 1933 to 1934, there was an actual decrease of 5 percent in our trade with gold bloc countries, while with the sterling area there was an increase in the same period of 30 percent. The continued trade restrictions in the countries suffering from overvalued currencies are a potent factor militating against world industrial revival. The growing trend toward the regimentation of foreign trade and the diversion of trade wherever preferential advantages

Page 2 of 2
Inclassified

can be obtained are seriously affecting many of our important exports, notably raw cotton. This dangerous trend in foreign trade is rapidly reaching a serious crisis. There is no likelihood of any substantial reversal of this trend by the mere making of trade agreements. The liberation of foreign trade awaits exchange stabilization.

3. The continued instability of foreign exchanges and the prevailing uncertainty with respect to the domestic monetary policies in the United States as well as in England and the gold bloc countries, is causing a nervous movement of liquid capital, driven hither and yon under the impact of speculative forces.

II. Objections to Early Stabilization.

1. The objection is sometimes raised that early stabilization would cause a fresh deflation of prices in the United States, particularly of raw material and agricultural commodities. In support of this view, the current decline in cotton and grain prices incident to the recent depreciation of sterling is cited. It is to be seriously questioned, however, whether a good case can be made on this basis. Even though exchange stabilization should involve some appreciation of the dollar relative to the pound, there is clearly an enormous difference between the current situation involving an appreciation of the dollar relative to the pound at a time when the whole future of the monetary structure both at home and abroad is in grave doubt, in contrast to a situation which would obtain with a moderate appreciation of the dollar in conjunction with a monetary and exchange stabilization program.

In reply to the fears raised, it may well be urged that any incipient tendency toward deflation of raw material prices incident to stabilization would promptly be overpowered by an upward surge of confidence, by a stimulus to the investment of idle funds, and by the rapid improvement in the securities market which is almost certain to follow from exchange stabilization. These favorable tendencies would inevitably have a sympathetic effect on commodity prices, including raw materials and agricultural commodities.

2. A more fundamental objection is frequently raised to exchange stabilization. It is argued that exchange stability limits national industry with respect to monetary and price policy and may work counter to domestic price stability.

With respect to this question, several points may be noted. In the first place, it will be generally agreed that what is immediately wanted is a rise in prices. As indicated above, there is every reason to believe that the means best calculated to produce this result would be the stimulus to investment and the expansion of capital industries through exchange stabilization. Moreover, it will also be generally agreed that while some further rise in prices is important, it is equally important to check the rise in prices once it begins to approach the pre-depression level. With the present huge amount of bank reserves, nearly 2-1/2 billion dollars, it is clear that sooner or later we shall have to face the difficult problem of preventing an extreme inflation of prices. That this can be more successfully achieved under the condition of stability of foreign exchanges and the free outflow of gold, once our price level is in line with foreign

can scarcely be doubted.

From a long-run standpoint, the alleged conflict between domestic price stability and exchange stability loses much of its force when one considers the huge gold reserves of some 8 billion dollars now held in the United States. This vast quantity of gold will give this country for many years to come unquestioned freedom of action with respect to domestic monetary policy under a condition of foreign exchange stability. Moreover, from the long-run standpoint, a reasonable degree of cooperation with respect to price policy between the United States and England ought not to create any serious conflict between price stability in the domestic market and the maintenance of exchange stability.

While a free exchange system presents certain attractive features, one should not overlook the dangers which such a system encounters. First and foremost is the danger of competitive currency depreciation. Whenever a country faces an increased business stagnation relative to the world situation, it will always be tempted, so long as exchanges are free, to improve its export situation by depreciating its currency. The adverse effect of such action upon other countries is almost certain to result either in counter currency depreciation or in the imposition of quotas and other quantitative restrictions upon imports. Thus, fresh uncertainties are created which only intensify business stagnation and prevent the formation of solid bases upon which business plans and industrial expansion can proceed. Moreover, so long as countries are on a free exchange basis, proposals to inflate directly the

currency are likely from time to time to gain ground, and even though not actually enacted, add to the uncertainty and tend to hold back the investment of funds available in the capital and money market.

III. Current Factors Favorable to Stabilization.

1. The recent fall of sterling, while intensifying the uncertainty, presses home the urgency of early stabilization, and, indeed, may prepare the conditions upon the basis of which stabilization agreement can be achieved.

The causes of this recent decline are not altogether clear, but they appear in part to be related to the special effects of international capital movements upon the British balance of payments. The high financial prestige of London during the last ^{three} years of general monetary uncertainty throughout the world has attracted capital to London for safety or for speculative profit. These funds have been placed on deposit with banks or have found temporary employment in the British investment market. According to confidential estimates of the Bank for International Settlements, the volume of foreign short-term funds in London at the end of 19³3 amounted to ~~over~~ ^{over} $\$$ ³ billion ² dollars. During 1934, some of these funds originating from the continent were apparently withdrawn, such withdrawals amounting perhaps to as much as half a billion dollars. In consequence, the equalization account suffered large gold losses in its effort to support sterling. This reversal of capital movements may well constitute an important explanation for the recent weakness of the pound.

The question may well be raised why the British Government should permit sterling to decline, on the assumption that the stabilization fund is not exhausted and that the

decline could have been checked if the Government had definitely wished to do so. There are various possible reasons for the inaction. British industry was suffering stagnation and a considerable section of the British public doubtless welcomed any stimulus which might follow from the depreciation of the pound. Moreover, a large section of the British public has become convinced that substantial worthwhile recovery is impossible so long as deflationary pressure continues in the gold bloc countries. This section of British opinion would doubtless favor the deliberate hastening of the collapse of the gold bloc in order to clear the ground for a rectification of international disequilibrium, which hitherto has caused the continued deflation in the gold bloc countries. Finally, the British would probably welcome a change in the dollar-pound rate more nearly in line with what the British regard as in accord with the ^{present} relation of costs and prices in the United States and England. The current developments, therefore, may well be creating a situation under which the British would be more favorably inclined to enter a stabilization agreement.

2. Current developments are also likely to bring about a change in the attitude of the French Government more favorable to exchange stabilization. The threatened current break-up of the gold bloc, lead by Belgium, brings ~~ing~~ home to the French people the seriousness of the situation and the necessity for international cooperation. While French sentiment has steadily been strongly opposed to devaluation, the grave danger in the current situation may well make it possible for the French Government to effect a moderate devaluation as the French contribution to an international stabilization program. There are 1

English Unclassified

little question that the unilateral devaluation by the French is quite impossible, but as a part of a general international program, the benefits to France may well appear sufficiently great as to justify this action. The loss of the French tourist trade and the recent movement by French hotels to accept foreign currencies at a more favorable rate indicate the realization by large sections of public opinion of the difficulties incident to the overvaluation of the franc.

The present Flandin government, having reversed the ^{former} foreign policies of rigorous deflation, and having sponsored a program of credit expansion and easy money, is set in a direction which favors ^{devaluation} ~~deflation~~ as a part of an international agreement. The current credit policy of the Flandin government is clearly quite inconsistent with its foreign exchange policy, and one or the other will have to be abandoned. From this standpoint, the new credit policy may be regarded as a first step looking toward devaluation.

3. In the United States also there is ground for believing that the attitude is becoming more favorable to a program of exchange stabilization. Throughout the country there is evidence of diminished faith in the merits of monetary manipulation and the resistance which would be mustered to further devaluation of the dollar would doubtless be very great. The continued stagnation of business improvement, the fact that there are still 10 million people enrolled with the Federal Employment Service, indicating a volume of unemployment in excess of this figure, is creating a new crisis which must somehow be met. The

choice is between a restoration of business confidence by conservative monetary policies, or the deliberate stimulus to a speculative upward movement incident to direct currency inflation. This movement is receiving increasing support in Congress. In consequence, all the elements in the community that are opposed to deliberate currency inflation see more clearly than ever the urgency of a settled monetary policy which, through international agreement, would remove these disturbing proposals to tamper with the currency.

IV. A Program for Stabilization.

1. The first logical step toward general stabilization would appear very definitely to be the stabilization of the dollar, the pound, and the franc. Considering the importance of the sterling area and the importance of the dollar in Central America, the West Indies, and Canada, and the dominance of the franc in the gold bloc area, the overwhelming importance of these three currencies in world economy is apparent.

2. The current international disequilibrium can best be corrected by (a) moderate devaluation of the gold bloc, and (b) possibly some moderate increase in the value of the ~~dollar~~ ^{pound} in relation to the ~~dollar~~ ^{pound}.

3. With respect to the relation of the dollar and the pound, fairly strong support can be found for the re-establishment of the old dollar-pound rate of 34.36. To begin with, it appears evident that while the pound was certainly overvalued in relation to the dollar prior to the depression, during the depression years costs, particularly in the important constructional and heavy basic industries, have been reduced more in England than in the United States. Thus, it appears that the cost-price relationship is

pound parity than was the case in 1929.

It should, moreover, be noted that even though British costs should, taking industry as a whole, be somewhat higher than in the United States, this situation is likely to correct itself rapidly once stabilization is achieved. In consequence of stabilization, it is likely that we shall have an upward trend in prices. In contrast to the pre-depression situation in which there was a downward trend, ^{the} a new situation will be much easier for English industry. The greater rigidity of the English industrial structure makes it very difficult for her economy to face a declining price level; because of this rigidity, however, the situation is quite different with an upward price trend, since British costs are not likely to rise as rapidly with an increase in prices as is likely to be the case in the United States -- witness the development in this country under the N. R. A. since 1933.

Another factor which minimizes the danger of a choice of exchange rates somewhat out of line with the cost-price relationship, and which, therefore, permits a somewhat greater range of elasticity in the choice of the new dollar-sterling rate, is the large amount of new gold production. The current production of gold is running somewhere around 900 million dollars a year (new dollars), and there is, in addition, a new gold supply coming out of the Indian hoards. This vast amount of gold supply would be an important factor easing up any temporary strains which may exist because of a failure to select precisely correct exchange parities.

There is, of course, one powerful argument in favor of the old dollar-pound rate, and that is the sentiment

and prejudices which are associated with a condition which has long prevailed. Certainly in this country stabilization at the old rate would be welcomed by a very large part of our community. This, to be sure, would be less true in England where doubtless they would favor a return perhaps to a rate of from \$4.00 to \$4.50.

4. It is suggested that the following might serve as an appropriate basis for stabilization:

- (a) Devaluation of the franc by 20 to 25 percent;
- (b) Dollar-pound rate \$4.50.

It would doubtless be well for the United States to press first for the old parity of \$4.86, with, however, the willingness to proceed to \$4.50 should this prove helpful in furthering the stabilization agreement.

J. H. H.

April 15, 1934.
Monday.

Hello.

H.M.Jr: Yes.

Mr. Morgenthau?

H.M.Jr: Talking.

Just a minute. I have Congressman May.

May: Hello.

H.M.Jr: Hello.

M: Good morning, Mr. Secretary.

H.M.Jr: Good morning.

M: I'm mighty sorry to have had to bother you this morning, but -

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

M: - in this matter that I was down to see you about some time ago. That fellow Centers, he's here in town and his hearing has been in accordance with your suggestion, and I think Mr. McReynolds has read that record. Now, in the record, Mr. Secretary, there isn't a sign of evidence, as I can see it, to establish a single charge they had against Centers and although there were charges made, I think he has successfully reputed and explained them. For instance, he has given - he's got the testimony of United States Commissioners and other officials of the government that testified to his good conduct, and then, a girl who worked in the Narcotic Office, or rather in another office adjoining in the Commissioner's office there, completely corroborates him with a number of other witnesses on everything that he tells. Now, in view of his record as a veteran in both the Spanish American War and World War and his services with the government, I'd like to have that matter disposed of as soon as I can get it done. Of course, I don't ask you to take it up, but when you can, I'd like for you to confer with Mr. McReynolds about it.

H.M.Jr: Surely.

M: - and I'd like to call your attention further to the fact that he's gone up to the community where he was born and reared and where he does most of his work in that section. He's gotten indorsements, recommendations of bankers and business men and -

H.M.Jr: Well, I'll get at it in the next twenty-four hours.

M: Well, that's fine, Mr. Secretary, and I want to thank you again for the courteous treatment you gave me when I was down there.

H.M.Jr: Well, we always try to be courteous.

M: Yes, that's fine.

H.M.Jr: Thank you.

M: Yes, all right.

H.M.Jr: The Director of your Central Bank was here about two months ago and he said it was time that you tell us how high the price of silver is going to go? I said "I wish I knew myself". Then he said "If the price paid by the U.S. will come to the stage that I am now reaching to see if you will sell as gold as well as you have done of our account" and I told him at that time that the U.S. will buy more and the gold the business government owned.

H.M.Jr: Let the last thing make you know that the gold you save. Your people have had more to do with the recent increase in the price of silver than anybody else. You have taken this completely out of our hands. The situation really runs more in Mexico than it does here. As near as we know you have accumulated between 20 to 25 million ounces of silver. If you want to keep the price of silver down why don't you sell some? Besides that you have been buying silver in London. The combination is what is putting the price of silver up.

H.M.Jr: The Minister of Finance told us that the price of silver is entirely due to the things here in the United States. What is the remedy?

H.M.Jr: I think one of the remedies is the possibility of discussing with Mexico the move that you are going to take if silver should go above the \$1.00 mark. Are you going to lower?

H.M.Jr: What the Director of the Central Bank and I said was discussion two months ago he said at that time "I am going away feeling perfectly happy to know that you are going to sell us this paper"

April 16th

The Mexican Ambassador came in to see the Secretary to-day and complained about the advance in the price of silver.

Mex. Amb. The price of silver has reached the limit we can stand. My government wants to know whether the price of silver is going to increase any more and, if so, can you do it gradually?

H.M.Jr: The Director of your Central Bank was here about two months ago and he said at that time "Can you tell us how high the price of silver is going to go?" I said "I wish I knew myself". Then he said "If the price goes to 72¢ we will have to take steps and I am here to-day to ask if you will sell us gold so that we can take care of our reserve" and I told him at that time that we would let him have all the gold the Mexican government wanted.

H.M.Jr: For the last three weeks you have had all the gold you want. Your people have had more to do with the recent increase in the price of silver than anybody else. You have taken this completely out of our hands. The situation really rests more in Mexico than it does here. As near as we know you have accumulated between 20 to 22 million ounces of silver. If you want to keep the price of silver down why don't you sell some? Besides that you have been buying silver in London. The combination is what is putting the price of silver up.

Mex. Amb. The Minister of Finance told me that the rise is entirely due to the doings here in the United States. What is the remedy?

H.M.Jr: I think one of the remedies is the possibility of discussing with Mexico the move that you are going to take if silver should go above 72¢. What money are you going to have?

H.M.Jr: When the Director of the Central Bank and I had our discussion two months ago he said at that time "I am going away feeling perfectly happy to know that you are going to sell us this gold."

H.M.Jr:

When Mr. Hull told me of your visit this morning I just could not believe it because I knew what had been going on and it looked to me that, for reasons I could not explain, your government was trying to put us in a false position.

H.M.Jr:

I have been very frank with you. I have been giving you licenses for gold. We paid you a very generous price for silver and gave you a better price than you would have received had you shipped it to London. After all this you come here to ask what we are going to do to stop the rise of silver.

H.M.Jr:

We want to keep our relations friendly. We are one of your best customers and you are one of ours. Tell your government what I have told you and then come back to see me. Frankly, they have not been giving you the best information.

H.M.Jr:

Since January we bought 9 million 400 thousand ounces of silver. Altogether we bought 21 million ounces but our last purchase was made on April 2d.

H.M.Jr:

If your man from the Central Bank wants to come here and discuss this situation further I am perfectly satisfied.

April 16th (1935)

H. M. Jr. spent several hours with Crowell and told him he wanted to make his speech on the external dollar. For two hours he dictated his ideas to Crowell. He said:

He wanted to divide the talk into what has happened in the last three decades of ten years each.

He wants them to study the balance of payments between the United States and the rest of the world. During the three decades before the war, during the war and after the war how did the United States get paid for its favorable balance of merchandise.

I think what we will find out is that we got paid through loaning money abroad - South America and Europe - for which we never got paid.

We find ourselves in the period where if anybody wants to buy anything they have to pay for it in merchandise, cash, gold or silver.

We took this opiate and fooled ourselves into thinking that we are going to get paid. Would you rather have an accumulation of gold and silver or a bunch of debts which during the last 30 years have never been paid.

I want a timetable beginning when England went off gold.

We started to buy gold.

The various Executive Orders subsequent to England's going off gold before F.D.R. came in.

Tremendous deflation.

-2-

And when we started to buy gold.

How things went up.

Normal movements of gold.

The big movements of gold.

The world produces about a billion dollars gold a year.

I know that what we are doing is right. We have never explained and gotten credit for it.

Our exports increased tremendously but people say we are selling on a 60¢ dollar so it means nothing.

Take 25 billion companies that manufacture for export and analyze their sales on a tonnage or physical basis. Did these companies make money or lose money? How much more employment did that mean to these companies?

On the internal thing, let's take these companies. Has devaluation been good for the companies who are doing domestic business?

Improvement of modern machinery.

This all has been correlated. Take in the last 30 years. Take into consideration the foreign debts which have not been paid.

What proportion of the world's business we have picked up in the last 15 months since we have devalued.

We want to prove that the dollar has been more stable in the last 15 months than it has in the last few years.

-3-

Looking towards the future as far as world stabilization is concerned that until we can see some advantage to the United States citizen in world stabilization it does not interest us any more than it does England and France.

We will never get stabilization until it benefits the pocket-books of European countries.

At the moment we are riding stronger than anybody else. We are willing to talk this question over but we are not going to permit ourselves to be put in the same position.

I want to talk about the American dollar abroad and the American dollar here. Perhaps I can do it in two nights - 15 minutes each.

The monetary policy of this Administration has held the fort until we can recover from the shock which we received over a period of years.

What H.M.Jr. is trying to do is to put down in black and white what the American export policy is which has never been expressed by the President or anybody and see if the President will take it.

Unless I can give an intellectually honest speech I will not give it at all.

Suspension of gold payments in the spring of 1933 is the important date and not that you devalued. Our method of suspension and devaluation is such that the American citizen got the benefit and not the banker.

We will not stabilize until we see the whites of their eyes.

April 16th

I walked down with Henry Wallace this morning and he told me that Mr. Alvin Hansen, the Economist at the State Department, was over to see Ezekiel and talked about plans for stabilization. Hansen's program is that we should join with the French and urge them to devalue 15%.

I got quite angry and told Wallace that the trouble in this town is that certain people who have not made a success of their own work try to mess into the affairs of other people. I also told him that the President had told Hull, in my presence, that I was to handle stabilization and that only this week Hull told me over the telephone that the President had told him not to answer the British note on stabilization. I let Wallace see just how I felt about it so he said "Well I suppose Hansen was working on a memorandum for Hull's information". I reminded Wallace that up to the time I returned from Sea Island Beach the State Department was hell bent for working with the British on stabilization and that it was only after Hull spent an evening with me that I was able to sell him the idea that it would be more useful to work with France than it would with Great Britain.

H.M.Jr. called the President at 9:30. He told him that sterling seems to be a little stronger, that the British for the first time seemed to have stepped in and sold some sterling and bought 600 thousand dollars worth of gold. Silver is down to 67.67. H.M.Jr. said to the President that if he approved we would let silver drop to 65¢ and then buy some and spank some of the speculators.

H.M.Jr; told Lochhead that he would like to see silver drop to 65¢.

On receipt of the following letter from Mr. Morgenthau, Senator Glass came in to see him this morning. *The Senator was quite upset over McKellar's attack on Berney. Mr. Morgenthau told Senator Glass that he would leave it entirely to him to advise him what to do about Berney, that is whether to transfer him or keep him. The Senator said he would let him know.

Senator Glass also told Mr. Morgenthau that he is the only member of the Cabinet who is trying to do an honest job.

Senator Glass asked Mr. Morgenthau whether he was satisfied with the Open Market Committee and H. M. Jr. told him that he was.

April 13, 1935.

Senator Glass also told H.M.Jr. that Governor Harrison is very fond of Mr. Morgenthau and, of course, Mr. Morgenthau said he was very fond of Governor Harrison.

Since the receipt of your letter of March 11th, we have been making an earnest effort to effect the transfer of Mr. E. E. Berry from the Board of the Board to either the Veterans Administration or the War Relocation Administration. Due to the effect of Berry's vote by Senator McNichols on the floor of the Senate, we now find that it is impossible to secure a position for him except at a drastic reduction in pay and salary.

I should like to see you and have had so many years of experience in Government service, whether you feel that Senator McNichols has kept his part of our agreement with respect to Berry. In view of the attack by McNichols on him in the Senate, I would greatly appreciate it if you would advise us what you think I should do in this case under the circumstances. I value your opinion very highly and I feel sure that you will not suggest or advise anything that would be unwise. If, after reading this letter, you would care to discuss the matter with me, I should be glad to come to your hotel for that purpose at any time you wish.

Very sincerely yours,

Walter P. Reuther, Jr.

Secretary.

Walter P. Reuther, Jr.
1000 ...

*

April 13, 1935.

My dear Senator Glass:

Since the receipt of your letter of March 15th, we have been making an honest effort to effect the transfer of Mr. E. E. Berney from the Alcohol Tax Unit to either the Veterans Administration or the Farm Credit Administration. Due to the attack on Berney made by Senator McKellar on the floor of the Senate, we now find that it is impossible to secure a position for him except at a drastic reduction in grade and salary.

I should like to ask you, who have had so many years of experience in Government matters, whether you feel that Senator McKellar has kept his part of our agreement with respect to Berney in view of the attack he launched on him in the Senate. I would greatly appreciate it if you would advise me what you think I should do in this case under the circumstances. I value your opinion very highly and I feel sure that you will not suggest my doing anything that would be unfair. If, after reading this letter, you would care to discuss the matter with me, I should be glad to come to your hotel for that purpose at any time you suggest.

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary.

Hon. Carter Glass,
United States Senate.

April 16, 1935.

Members of the staff, who have constituted an informal committee to consider questions relating to political activity of Treasury employees, met with the Secretary at 10:30 A.M. today to consider the case of G. W. O'Malley, Collector of Internal Revenue at Omaha, Nebraska and James P. Boler, a Deputy Collector in his office.

There were present Commissioner Helvering, Mr. Ireby, Assistant Secretary Gibbons, Mr. Oliphant, Mr. McReynolds and Mr. Gaston. The Secretary had on his desk a summary of the case and a report of the investigations by Ernie G. Carroll and Frank B. Seaton, Special Agents of the Intelligence Unit, who had investigated reports that O'Malley and Boler had received political contributions from employees in violation of the Secretary's order.

After some discussion of the case the Secretary caused Collector O'Malley to be brought in. O'Malley stated that he had not intentionally violated the Secretary's order. He admitted writing a letter to a field employee named Goff, in reply to a letter from Goff, telling him that he could make a political contribution by sending the money in Boler's care. He said that he regarded Boler as a mere messenger and had not thought this action was a violation of law or the Secretary's order. He admitted that Boler had similarly acted for other employees in taking political contributions to campaign headquarters.

- 2 -

O'Malley was excused and Boler was called into the room. He said he had taken the same view of the matter as the Collector and had not thought he was violating the Secretary's order. He admitted that he accepted for delivery to the campaign headquarters as many as eight or ten political contributions, including one of \$5.00 by the Collector's son, an employee of the office, which he had received from the Collector:

Boler was excused and there was further discussion of the case. The Secretary asked the opinion of those present and it was the unanimous agreement that while O'Malley and Boler had both acted contrary to the plain intent of the Secretary's regulations on the subject of political activity and political contributions, their conduct did not warrant any more drastic discipline than a reprimand. Messrs. McReynolds and Gaston withdrew their recommendation that the men both be dismissed.

Messrs. O'Malley and Boler were then both called back into the room and the Secretary stated to them that their action was contrary to his instructions but that he was willing to consider the case closed if the Collector would give him his promise that nothing of the kind would occur again. The Collector gave him that promise without reservation and the meeting was dismissed.

BRIEF OF CASE OF JAMES P. BOLER
AND G. W. O'MALLEY

TESTIMONY OF BOLER. Boler admits receiving political campaign contributions from those seven persons whose testimony is briefed on the next page, and in addition alleges receipt of contributions from J. A. O'Malley, son of G. W. O'Malley, the Collector, the contributions being tendered him by G.W. O'Malley, and from Mrs. Gertrude Fuchs, another employee.

Boler admits receiving and reading a copy of "Instructions to Employees" when he first entered the service. He likewise admits having read Treasury Department Circular of June 5, 1934, and the supplement of September 10, 1934, to Department Circular No. 518.

Boler states that on one occasion O'Malley advised him not to accept any more contributions; that he was getting on "dangerous ground". The evidence shows, however, that on October 4, 1934, O'Malley, in answer to a letter of inquiry from Goff, suggested that any contribution which he might desire to make be forwarded to Boler. (Exhibits 4-C, 4-D, and 12-D).

The defense offered by Boler is that there has been no violation of the spirit of the circular of June 5, and the supplement of September 10, 1934, and that there were no solicitations for contributions. Boler contends that he received the contributions in question only in the capacity of a messenger and for the purpose of depositing them at a designated place.

Boler testifies that during 1934 he was not connected in any way with any committees, clubs, or other political organizations.

TESTIMONY OF O'MALLEY. O'Malley admits receiving circular letters and bulletins from the Treasury Department relative to political activity and alleges he informed the employees of his office that if they wished to make any contribution, it was a personal matter, but not to do it as a member of Internal Revenue.

O'Malley admits advising Goff, in answer to an inquiry, that contributions could be sent to Boler.

O'Malley admits that during a discussion he advised certain employees that he saw no objection to one employee taking the voluntary contributions of others to wherever they wished it delivered.

He states, that to his knowledge, no contributions were made by employees prior to the receipt of the circular of September 10, but that in view of the statement therein.

"The instructions contained in said Circular should not be construed:

- 1. * * * * *
- 2. To prevent any such employee from voluntarily contributing to the campaign fund of the party of his choice, if such contribution is made freely and without coercion or

improper solicitation, and is not made to a person in the service of the United States."

he believed it permissible for one employee to deliver another's voluntary contribution as a matter of accomodation.

O'Malley further states that he refused permission to political committees to solicit campaign contributions in the office.

TESTIMONY OF EMPLOYEES. (A) Seven employees of the office of the Collector of Internal Revenue admit giving campaign contributions to Boler:

1. Martha Brinkerhoff Stanek, Deputy Collector, gave \$5.00 cash to Boler in Federal Office Building. (Exhibit 6)
2. J. T. Sabata, gave \$5.00 cash to Boler outside Federal office building. (Exhibit 7).
3. Hubert Heckenlively, Deputy Collector, gave \$5.00 cash to Boler in Federal office building. When Heckenlively tendered contribution, Boler advised him to make sure he wanted to do it. (Exhibit 8)
4. Walter Weber, Deputy Collector, Hastings, Nebraska, wrote Boler asking whether he would receive campaign contributions and Boler replied that he would. Weber mailed check for \$10.00, payable to Boler, dated October 15, 1934. This check was indorsed by Boler and then indorsed by the Douglas County Democratic Committee. (Exhibits 9, 9-A, and 9-B)
5. Katherine T. Flynn, Listing Clerk, gave \$5.00 cash contribution to Boler in Federal building. (Exhibit 10)
6. Leo W. Manefeld, Deputy Collector, O'Neill, Nebraska, gave \$5.00 cash contribution to Boler in Federal building. He states that when he inquired of O'Malley, subsequent to September 17, as to propriety of making contribution, O'Malley suggested that he give it to Boler. (Exhibit 13)
7. George W. Goff, Deputy Collector, Scotts Bluff, Nebraska. Check dated October 9, 1934, for \$15.00, payable to Boler, mailed by witness to Boler at Federal building. This was indorsed in blank by Boler. (Exhibits 4-C, 4-D, 12-D, and 14)

(B) Four employees of the office of the Collector of Internal Revenue, Omaha, Nebraska, allege that Boler never approached them with regard to campaign contributions and that no such contributions were made by them to Boler:

1. H. M. Sampson, Cashier. (Exhibit 1)
2. Erwin E. Rohlf, Chief, Income Tax Department. (Exhibit 2)
3. C. M. Cornick, Assistant to the Chief, Income Tax Department. (Exhibit 4)
4. Gertrude B. Fuchs, Billing Operator. (Exhibit 5)

CONCLUSION. The evidence shows that:

(1) Boler received contributions for political purposes from at least seven other employees of the United States.

(2) Boler received contributions of money from at least five other employees of the United States, for political purposes, in a building occupied in the discharge of official duties by employees of the United States.

(3) O'Malley was aware of the fact that Boler was receiving campaign contributions and gave his implied approval to the procedure.

(4) The evidence fails to show any direct or indirect solicitation of political campaign contributions by Boler or O'Malley.

RECOMMENDATIONS. The Special Agents who investigated this case recommend that Boler be summarily removed from the Internal Revenue Service, and their recommendation is concurred in by the Acting Special Agent in Charge.

The Commissioner of Internal Revenue recommends that both Boler and O'Malley be severely reprimanded and cautioned that a repetition of the offense will result in summary action.

Mr. McReynolds and Mr. Gaston recommend that both Boler and O'Malley be removed from the Service.

INVESTIGATED BY. Ernie G. Carroll, Special Agent, Intelligence Unit.
Frank B. Seaton, Special Agent, Intelligence Unit.

April 17, 1935.
Wednesday.

234A

H.M.Jr: Hello.

Bulkley: Hello, Mr. Secretary.

H.M.Jr: Hello, Senator.

B: How are you today?

H.M.Jr: I'm fine.

B: Just had a little talk with

H.M.Jr: I know, he told me about it and he -

B: And I think the best thing I can do -

H.M.Jr: Yes.

B: - is to talk further with Glass and see if we can't get that whole thing accommodated without having a fight.

H.M.Jr: Well, that'll be fine. They tell me that you can swing it if you want to.

B: Well, I'm not quite so sure about that, but I will tell you this, that - that I - I have come to the conclusion that I do want to do that.

H.M.Jr: You do want to?

B: Yes.

H.M.Jr: You mean you - you will vote for Eccles?

B: No, I - I said that I do want to adjust it so as to get it confirmed without any scrap.

H.M.Jr: Fine.

B: As far as voting is concerned, I don't think we're going to be in need of votes -

H.M.Jr: I see.

B: - and I think there're plenty of votes. The only question is whether it can be gotten through without a troublesome scrap over it.

H.M.Jr: Well, now, Senator, I was planning to leave tomorrow night, if - do you think this thing will come up before tomorrow night?

B: Well, it might and it might not -

H.M.Jr: Well -

B: - it might be a good thing to force it. I'd like - I'd like to see an adjustment and the whole scrap dropped, myself.

H.M.Jr: Yes, well, could I call you up again tomorrow?

B: Yes, sure.

H.M.Jr: And you - know better whether to let it go over the week-end or not?

B: Well I - I on it yesterday because I - I thought it would be better to try to work it out and not bring it to an issue.

H.M.Jr: I see.

B: And I haven't seen him today; I don't know how he's feeling.

H.M.Jr: But - but you feel that his confirmation is - chances are good?

B: I don't think you have anything to worry about as far as votes are concerned, but I think it would be better for all concerned if it could be adjusted instead of having a scrap over it.

H.M.Jr: I - I agree with you on that.

B: Yes.

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

B: Well, I'm going to try to see what I can do along that line.

H.M.Jr: Fine, and I'll -

B: I just want you to understand this -

H.M.Jr: Yes.

B: - that although I do want to do that and will earnestly try to do it, I don't want you to understand that I can make any promise about a vote because, after all, a man can't in conscience - in good conscience vote on either side of this question.

H.M.Jr: Yes.

B: - and I am under a little personal pressure on account

of my friendship with Glass. I may decide that I ought not to desert it.

H.M.Jr: I see.

B: But, I - I will promise you now that I'll try to get him to drop it.

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

B: I want to ask you another question.

H.M.Jr: Yes, sir.

B: Bankhead on the floor - a bill to increase the Farmers Loan Corporation -

H.M.Jr: Yes.

B: And proposes to issue a billion dollars in guaranteed bonds. Can you check that?

H.M.Jr: Well, I was told that it wasn't very serious.

B: Well, it looks pretty serious when Joe Robinson gets up and makes a speech for it.

H.M.Jr: Well, we were up this morning on this thing of Marvin Jones, who was proposing to take eight hundred million dollars away from the Stabilization Fund to issue currency against this for farmers to establish two central banks, and I told Marvin that I had to speak on that, I mean, I just couldn't keep quiet. Well, he said he'd give me a ring when he - I should come up; I haven't heard from him yet.

B: Well, I never did talk to you personally about the Home Owners' Loan, but your representative

H.M.Jr: Yes.

B: And in a general way, I have tried to keep it within limits. I - I just save myself going a little bit higher than you who are supposed to be in favor of it, but I have on the whole tried to keep it down -

H.M.Jr: I know you have.

H.M.Jr: Well, the thing - the thing that worries me more than the amount - I mean, the Home Owners' Loan is just opening it up again for sixty days.

B: That's so darn hot that I doubt if you'll be able to
Of course, I fought that on the floor and got

licked, but now as a conferee I feel the same as you are.

H.M.Jr: Of course, I - I don't know how much you people know about the position of the Home Owners' Loan -

B: Quite a good deal.

H.M.Jr: - and - I mean, you know that for ninety days on their interest, they're forty-two percent in arrears, and -

B: Well, now - wait a minute - forty-two percent in arrears for ninety days?

H.M.Jr: Yes.

B: Well, now that - if that's true they're absolutely lying to us. Where did you get that?

H.M.Jr: Well, I tell you how - where the difference is, if they send out on the first of April, let's say, twenty-five million dollars worth of bills, you see -

B: Yes.

H.M.Jr: - they add what went out on the first of April to what was standing for the previous ninety days. You see? And in that way they arrive at a figure, say, of twenty-one percent in arrears.

B: Yes.

H.M.Jr: But, if you take - if you - if I - I owe you some money and you sent me the bill ninety days ago, I'd figure that I'm ninety days in arrears and I don't take in account what's due for the month of April, you see?

B: Well, now let me get you on that. Suppose I didn't make my payment in January and haven't paid it yet -

H.M.Jr; That's ninety days in arrears.

B: Yes, well, now would they render me a new bill on April 1st and say that it was only fifteen days in arrears?

H.M.Jr: Well, they - they take that and they average it up and they get a figure of twenty-two percent. But, actually taking the money which wasn't paid since last January, they're forty-two percent in arrears. We've got all those figures.

B: Well, I want to get those.

H.M.Jr: Well, I can - I can send Upham, who is here with me, and happens to be with me now; I can send him up to

you. We've got -

B: I wish you would. I think that's damned important.

H.M.Jr: And there's no question; they're forty-two percent in arrears on their interest and on their amortization fifty-two.

B: Well, of course, their amortization is a little bit loose, you know.

H.M.Jr: But, on the interest that - we had Fahey over here last week and - after all, my responsibility is that if we guarantee the bond, I say we, and if the thing goes sour, they've got to make good.

B: Why, certainly.

H.M.Jr: And, I - of course, I don't like to get my wires crossed, but -

B: No, but dammit, they've got to play fair on it. I want to see that.

H.M.Jr: Well, supposing I let Upham come up and show it to you.

B: I wish you would.

H.M.Jr: U - p - h - a - m. Maybe you know him.

B: Yes. Now, I - I will be with all afternoon. I can't guarantee whether I'll be on the floor or my office at any particular time, but he'll find me one place or the other.

H.M.Jr: Well, he'll find you.

B: Yes.

H.M.Jr: And I'll tell - I'll make no bones; I'll tell Fahey that we're sending it up to you at your request.

B: Yes, absolutely.

H.M.Jr: But, those are the facts -

B: Absolutely, I certainly do request it.

H.M.Jr: What's that?

B: I certainly do request it.

H.M.Jr: Well, I'll send it up to you.

B:- All right, fine. Now, what do you say about that Farmers Loan Corporation. Do you think there's any danger in that?

H.M.Jr: Well -

B:- I mean, would there be any danger if they don't go ahead and make these loans and ask for a billion dollars more to be guaranteed?

H.M.Jr: Senator, I don't want any more guaranteed bonds if I can help it. It's - it's getting - piling up pretty heavy.

B: Well, it seems to me -

H.M.Jr: I - I - who's chairman of that committee?

B: Smith.

H.M.Jr: Senator Smith?

B: Yes.

H.M.Jr: Well, I don't know whether they've asked us for memorandum, but if they do, we'll certainly -

B: Well, now, confidentially I don't know whether Smith's going to make a speech on the floor or not, but Smith's told me that says that he's absolutely against it.

H.M.Jr: Who, Smith?

B: Yes.

H.M.Jr: He's against it?

B: Yes, but he's with the Senator, but I don't know whether he's saying that out or not.

H.M.Jr: Well, when is that going to come up for argument?

B: It's up now; it's on right this minute.

H.M.Jr: And Joe Robinson introduced it?

B: No, but he's very to it. Says that he was just on the point of introducing a thing like that himself.

H.M.Jr: Well, let me send for our boys; we'll look into it. I - stuff is coming pretty fast.

B: It sure is coming fast. I - I sometimes fear it's coming too damn fast.

H.M.Jr: Yes, yes. Well, I'm awfully glad to have had this chance to talk and I'll have Upham come up with those Home Owners' Loan figures.

B: Yes.

H.M.Jr: And I'll look into this guarantee -

B: And if you have anything to say about the Farmers Loan Corporation, I'll be damn glad to hear it.

H.M.Jr: Well -

B: But, it will have to be pretty quick. It's going to be voted on today.

H.M.Jr: I see. Well, now if we do anything, I can do it within the next fifteen minutes.

B: All right, fine.

H.M.Jr: Thank you.

April 17, 1935.

A group met in the office of the Secretary of the Treasury at 9:30 A.M.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,
T.J. Coolidge, Under Secretary of the Treasury,
Rexford G. Tugwell, Under Secretary of Agriculture,
Wm. I. Myers, Governor, Farm Credit Administration,
Scott W. Hovey, General Counsel, Farm Credit Administration,
Josephine Roche, Assistant Secretary.
Herman Oliphant, General Counsel, Treasury Department,
Herbert E. Gaston, Assistant to the Secretary,
George C. Haas, Director of Research and Statistics,
C.B. Upham.

Mr. Coolidge read a report on H.R. 6151, a bill introduced by Marvin Jones of Texas, which would authorize the issuance of currency by Federal Intermediate Credit Banks.

Mr. Myers said the real problem of the Intermediate Credit Banks was how to market their debentures in a monetary pinch.

Mr. Morgenthau asked how about letting them discount at Federal Reserve Banks.

Mr. Coolidge commented that the Federal Reserve Banks might not be willing to take their paper.

Mr. Morgenthau was of the opinion that it might be well if they have a show down on this bill -- that the limit has been reached.

Mr. Oliphant thought there might be some advantage to giving something more than a negative answer and referred to the bill for Farmers Home Corporation introduced by Senator Smith.

Mr. Myers said Congressman Jones regards his bill as a sound way of doing what Frazier-Lemke wanted to do and a method by which the more radical Frazier-Lemke proposal can be defeated.

Mr. Coolidge was of the opinion that if the Intermediate Credit Banks get money they should get it from the Treasury rather than from the Federal Reserve System.

Mr. Morgenthau was of the opinion that the Government has gone the limit on farm finance. The FCA has done a good job of taking care of farmers. He would rather see some money secured for the small business man.

Mr. Myers, who was due at 10 o'clock to testify before the House Agricultural Committee on the Jones Bill, said that he will tell the Committee what the FCA is doing now and cost of its funds. He said that the ultimate cost to the consumer for sound farm loans is now 5%, which is the lowest retail credit rate.

Mr. Morgenthau asked if the Treasury should go up and say it needs the \$800,000,000 which the bill would segregate from the Stabilization Fund gold.

Mr. Coolidge said we should take the position that we shouldn't have two banking systems.

Mr. Tugwell and Mr. Cliphant thought this would be a mistake -- that it is a good argument but that it would have no effect.

At this point Mr. Morgenthau called Mr. Jones on the telephone and told him that the Treasury would have to oppose the segregation of \$800,000,000 from the Stabilization Fund. He said he couldn't sit here as Secretary of the Treasury and see a bill passed to make use of part of the gold profit. That can't be touched, he said.

Mr. Myers asked how about suggesting that the Treasury buy debentures of the Intermediate Credit Banks when the Secretary thinks that might be done.

Mr. Morgenthau said there was no necessity for it -- that the FCA is the best organization for lending money in the United States.

The Social Security Bill was then brought forward for consideration.

Miss Roche referred to an amendment which had been tacked on the bill under which people over 65 might go on working, pay no taxes, but collect their pensions. She said there was a disposition to accept the amendment and let it go to conference, but she was of the opinion that it would increase considerably the cost to the Treasury, and it was agreed that the Secretary would seek a conference with Chairman Doughton of the Ways and Means Committee with respect to the matter.

April 17, 1935.

238

The Open Market Committee of the Federal Reserve System met with the Secretary of the Treasury in his office at 11:00 A.M. Those present were:

- Henry Morgenthau, Jr. Secretary of the Treasury,
- T.J. Coolidge, Under Secretary of the Treasury,
- Marriner S. Eccles, Governor, Federal Reserve Board,
- G.L. Harrison, Governor, Federal Reserve Bank of New York,
- W.R. Burgess, Deputy Governor, Federal Reserve Bank of New York,
- R.A. Young, Governor, Federal Reserve Bank of Boston,
- G.J. Schaler, Governor, Federal Reserve Bank of Chicago,
- G.J. Seay, Governor, Federal Reserve Bank of Richmond,
- D.W. Bell, Acting Director, Bureau of the Budget,
- G.C. Haas, Director, Research and Statistics,
- C.B. Upham.

Prior to discussion of the refunding of the First Liberty Bonds there was some discussion of the cash position of the Treasury.

Mr. Coolidge indicated that we were letting the Treasury bill receipts slide off \$25,000,000 a week because of big cash balances. Reserve balances are now down, he reported, and raised the question whether we should increase weekly bill offerings, and if so, whether they should be \$75,000,000 9 months and \$25,000,000 6 months or \$50,000,000 of each.

Mr. Bell estimated that the CCC would require \$250,000,000 in 1935. He estimated that there would be an additional deficit of \$1 over \$800,000,000 to \$1,000,000,000 between now and the end of the fiscal year. We have \$1,700,000,000 working capital and should have a balance of \$800,000,000 or \$900,000,000 on June 30. A little additional money may be needed to take care of the

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238

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Mr. Bell estimated that the CCC would require \$250,000,000 before June 30th. He estimated that there would be an additional deficit of not over \$300,000,000 to \$1,000,000,000 between now and the end of the fiscal year. We have \$1,700,000,000 working capital and should have a balance of \$800,000,000 or \$900,000,000 on June 30th. A little additional money may be needed to take care of the

Consols.

Mr. Morgenthau suggested that we run along as we are for a while on the bills and then increase to \$50,000,000 9 months and \$50,000,000 6 months.

Mr. Coolidge added that the gaps could then be filled in with 4 and 5 months bills.

Mr. Coolidge then read a memorandum which he had prepared on refunding the First Libertys. It follows:

"April 17, 1935.

Memorandum re: FINANCING

"We have about \$1,900,000,000 called First Libertys which need to be paid on June 15th. \$1,400,000,000 of these are tax-exempt. Of these tax-exempt bonds our estimates are that perhaps two-thirds are held by people with incomes of over \$20,000. My suggestion is that we give them a choice of a long Government bond which is, of course, taxable as far as surtaxes are concerned, or a five-year note which is non-taxable. It would seem appropriate to give these holders a choice of the last two issues, namely:

2-7/8% Bonds due 55-60

1-5/8% Notes due March 15/40.

"The simplest offer of conversion would be to adjust interest as of June 15th. This would involve our paying the coupon in full and charging the purchaser interest on the new security until June 15th. At the moment this would involve a conversion price of 100-1/2 on the bonds and about 100-3/8 on the Notes, this price reaching par by June 15th. This would involve perhaps a point profit on both of these issues based on immediate markets. I suspect

that the price of both of these issues would be forced down somewhat by the offer, other things being equal, and that the conversion might be more or less equal into each of these issues. Should they come in too rapidly on the notes, I would suggest closing the books promptly. I have a feeling that a point profit seems rather large in the markets to give for a conversion into the notes. However, I have not got very great faith in these market prices being able to absorb a large quantity, and to give a profitable conversion into a note would insure a successful conversion. On the other hand, I think it would be well to consider the advisability of charging above par for the new note. This would have a tendency to force more conversions into the bonds and force the price of the bonds down where they might be better absorbed by the investment market. However, should there be a general drop in the market, it might prevent a successful conversion.

"I would be inclined to insert in the offering the right of the Treasury to raise the price in order, first, to hasten conversion, and second, should the market go up, not to extend the full benefits of conversion to those who wait.

"It is always well to consider the possibility of selling the shorter bond at a lower rate, and I feel it is healthier to increase our long issue."

Discussion followed as to whether a replacement note should be issued at 1-5/8 or 1-1/2.

Mr. Coolidge pointed out that, assuming an interest adjustment as of June 15th the conversion price today of the notes is 100-3/8. If the note is sold at 100-1/2, he said, it would force holders into

the bonds and pull the bonds down. He said he would like to get the best price possible and suggested starting with a good price and then close the books or raise the price. He said that a price of par for the bonds and par and a half for the notes would shove the long market down.

Mr. Burgess said that unless the Treasury were a little generous, the bond market would go up.

Mr. Eccles and Mr. Schaler were of the opinion that the holders of the First Libertys would favor the new notes.

Mr. Burgess was not so sure but thought that would be satisfactory and commented that we had just put out a lot of bonds.

Mr. Coolidge added that we have \$1,200,000,000 to refund in October for which long bonds should be offered as an exchange.

Mr. Burgess commented that 1-5/8 was pretty cheap money.

Mr. Morgenthau suggested the possibility of a note of something less than 5 years maturity.

Mr. Burgess thought there was an advantage to building up the 5 year and more maturities into substantial blocks. He regards the 1-5/8 note as a nice issue to trade in because there is a very small gap between the bid and asked prices. The market likes it.

Mr. Coolidge remarked that the present market is not so good to sell as that which existed in December.

Mr. Burgess said the people are just beginning to analyze the Social Security Bill. He remarked that it had been under discussion the night before at a meeting of the Academy of Political Science and that the attendants were amazed. He thinks the market may get a bad jolt when people realize what is in the bill.

Mr. Morgenthau said he thought the timing of our financing was very important. He commented that Vice President Garner, in a conference had recommended that the political factor be completely disregarded and the Treasury follow out its usual orthodox procedure. Mr. Morgenthau was of the opinion that a big conversion hanging over Congress seems to have a wholesome effect. He said that he was ready to go ahead with the refunding on Monday, to which there was general agreement.

Mr. Coolidge thought that the note ought to be made attractive to hold the bond market up.

Mr. Morgenthau said that he might have some trouble with the President who has some cheap money ideas, partly as a result of Mr. Morgenthau's radio speech.

By a round robin vote, the majority were in favor of a 1-5/8 rate for the note with Mr. Eccles favoring 1-1/2, and his opinion being shared in part, at least, by Mr. Bell and Mr. Haas.

Mr. Bell raised the point about piling up maturities on one date. He said he would like to see maturities of \$500,000,000 to \$800,000,000 on tax dates.

Mr. Coolidge said he would like short term maturities on tax dates.

Mr. Morgenthau asked an opinion as to how much premium we can get.

Mr. Burgess said he wouldn't try for any.

Mr. Coolidge commented that we are starting with a premium on the interest rate -- have to pay interest to June 15th.

Mr. Coolidge thought that the 1/8% difference between 1-1/2 and

1-5/8 was to be regarded as insurance that the refunding would go over.

Mr. Eccles remarked that 1-1/2 is pretty good for 5 years.

Mr. Seay replied that it is now, but may not be later.

Mr. Harrison thought 3-1/2 to 4 million pretty cheap protection.

Mr. Eccles asked where the holders of First Liberty Bonds would put their money if they did not exchange.

Mr. Coolidge said they were the class of people who would keep it in cash for 6 or 8 months waiting for an attractive offer.

Mr. Morgenthau said he regarded this as the toughest conversion yet.

Mr. Coolidge said that if we announce at par and the market goes well he would favor jumping the price and asked whether that should be put in the circular.

Mr. Burgess said he did not think it had ever been done, that he saw no reason that it should not.

Mr. Morgenthau asked if the banks would buy the 2-7/8 bonds.

Mr. Burgess said there would be limited buying at first but the banks would absorb the issues over the years. He thought the distribution would be pretty good.

April 17th

Mr. Dewell, of the New York Daily News, came in to see the Secretary to-day. The request that Mr. Morgenthau see this man was made by Jim Farley.

The New York Daily News want to reopen the Lindbergh case because they feel that while Hauptmann was convicted the crime has not yet been solved. They have information which they feel sure will lead to the solving of this mystery and they do not want to work with the Department of Justice. They need the help of the Narcotic Division and, therefore, came to see Mr. Morgenthau to find out whether the Treasury will assist them.

Mr. Morgenthau said he would talk to the President about it and give him an answer by tomorrow and that inasmuch as the President had signed Executive Orders this case was in the hands of the Department of Justice and he had to get his approval first.

* * * * *

Mr. Morgenthau suggested to the President to-day that he thought it would be a good idea if Winn Reifler would make a study of Moffett's organization. Things were in very bad shape and he feels he ought to be able to do something in a week. The President approved and Mr. Morgenthau made arrangements with Reifler to-day. Mr. Morgenthau spoke to Colonel McIntyre about arranging for Reifler to make the study and he was quite annoyed that Moffett's organization should be investigated.

Mr. Morgenthau spoke to Hull to-day about the ten page memorandum which Under Secretary Phillips sent over to the Treasury to-day on stabilization. The President, Mr. Hull and Mr. Morgenthau had agreed that no one would handle stabilization except Mr. Morgenthau. Mr. Hull said that he knew nothing about it, that he did not want Mr. Morgenthau to make a formal answer to Mr. Phillips but he would dispose of the matter himself.

The following cable telephoned to McHugh at 10:24 1/2 A.M. this morning by Miss Willier of the State Department. April 18, 1935.

Mexico City, April 17, 1935.

#63

CONFIDENTIAL FOR TREASURY

FROM: COMMERCIAL ATTACHE

Heavy purchases of silver in London have been made by the Banco de Mexico during the past four days. The balance of the bank is low. It is believed that the silver purchases have been made to stimulate the market, or for possible sale to the Federal Reserve of the United States.

(Signed) Norweb

April 17, 1935.
Wednesday.

245A

H.M.Jr: Hello, Marvin?

Marvin

Jones: Yes.

H.M.Jr: Look, we've got some of our friends here in the room talking about your bill -

J: Yes.

H.M.Jr: - and there's one - I want to talk to you as one friend to another, that is, just to what the Treasury can - as to how far we can talk. Now, the easiest thing for us to say is that we can't spare any of the Stabilization Fund. We don't know when we're going to get into currency war and two billion dollars isn't so much. What?

J: I wasn't expecting the Treasury boys to come up and testify particularly on the merits, but on the mechanics of it. Some of the fellows didn't quite understand some of the provisions and I wasn't - and I asked Bill Myers to stop -

H.M.Jr: Bill's here- Bill's here in the room with me.

J: Yes. What they wanted- they didn't intend to ask any Treasury men to come up at all and then - one or two provisions that they wondered why they should be inserted and - we'd like one of those boys to come up and help make explanations about it - maybe Bill can do it, but I wasn't asking you fellows to make a commitment on the bill.

H.M.Jr: Well, I do want to get across that one fact, though, that we don't want -

J:

H.M.Jr: What?

J: You'd rather have the Frazier-Lemke bill

H.M.Jr: Well, I don't care; it's - I'd go the limit on - that the Stabilization Fund shouldn't be cut - I mean, I can't compromise on that - the President can't compromise on that - I mean, you talk about your cotton and your foreign trade and all that, I mean, if you want - if you want that, why, then just

J: Listen, Henry, we've got a practical situation up here. These boys are going to hold out on and thirty million dollars - it's a lot of money

H.M.Jr: Yes, well, I don't - they can go - they can go just so far and then we can start printing greenbacks, see?

J: Yes.

H.M.Jr: And then somebody else can run the Treasury.

J: You couldn't even stand eight hundred million

H.M.Jr: Why, no, no, and I'd like - I don't want to have anybody misunderstand that, and I'm perfectly willing to come up and say so myself. I don't, I mean -

J: Well, now listen, Henry, dammit the - you know, they're going to put everybody on the Rules Committee on the spot if I report out the Frazier-Lemke bill and don't report out something else, see? Along with it -

H.M.Jr: Yes.

J: - and they're going to vote the Frazier-Lemke bill out.

H.M.Jr: Well, why don't you and the Speaker and I get together?

J: What?

H.M.Jr: Why don't you and the Speaker and I have a talk?

J: Well, that won't - that won't keep - from putting the Rules Committee on the spot.

H.M.Jr: Well, of course -

J: I'm not going to vote to report this Frazier-Lemke thing out.

H.M.Jr: Well, are you going to vote this bill out?

J: Yes, I'm - we've got to protect the Rules Committee.

H.M.Jr: Well, then I think it -

J: What I'm getting at is the - the technical position of having a - it's a whole lot easier to fight when you've got two bills to keep either one of them from coming up to the Secretary.

H.M.Jr: Well, of course, you know your end without - better than I do and I've - I can't argue with you on tactics in Congress, but all I can argue with you is the need of the Stabilization Fund and that's all.

J: I know, I appreciate that fact.

H.M.Jr: And I don't feel we can let that come up -

J: Well, I'd hate to have them go around here and pass a bill like that Frazier-Lemke.

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

- H.M.Jr: Well, it's just a question, I mean - if anybody comes up from the Treasury, we've got to say that the Stabilization Fund can't be cut.
- J: And what - what
- H.M.Jr: Well, maybe you'd rather not have anybody come up.
- J: Well, all I want
- H.M.Jr: Well, if anybody -
- J: I'd rather nobody come up than to have them do that, but, I didn't think they had to pass on that. I didn't ask for you nor for anybody representing you and I just asked Bill if he couldn't bring somebody up because I think these other boys
- H.M.Jr: Well, Henry Wallace feels on the Stabilization Fund just as strongly as I do and I want to get this idea over to Congress, that they can't eat in on that fund. The Frazier-Lemke or no Frazier-Lemke, I mean, the whole key to our international trade is tied up in the Stabilization Fund.
- J: Well, it's just a matter of bookkeeping.
- H.M.Jr: What?
- J: It's just a matter of bookkeeping.
- H.M.Jr: What's that?
- J: And my bill just makes it.
- H.M.Jr: Oh, no, no, no, it's a great deal more serious than that, and I can't as a public servant let that thing pass without expressing myself.
- J: Well, I can - I can realize that and -
- H.M.Jr: I mean, I've - I've got my responsibilities as a public servant, and - I mean, I - I -
- J: Well, do you want to be - do you want to be heard on it before we act on it?
- H.M.Jr: If - if that eight hundred millions of Stabilization's stays in there - I mean, I would like to be heard on it.
- J: Well, here's the thing, Henry, I - we've got - I've held this Frazier-Lemke for three years, and these boys just won't let me hold it any longer.
- H.M.Jr: Well, you've done a swell job.
- J: And I've got to vote on the damn thing and -

H.M.Jr: You've done a swell job.

J: Well, thank you. I don't want to - I tell you, I may go ahead and report this other out and then before we take it up any way, why, I mean, before it gets through, you can be heard all right. You don't want to come up here and be hurt now.

H.M.Jr: Well, I - that's the time, I leave myself entirely in your hands.

J: Well, now you - could you come up this morning if I ask for you?

H.M.Jr: Yes.

J: What?

H.M.Jr: I'll drop everything and come.

J: Well, I may want you to do it. I won't say now, but Bill's coming on up here, but - I'll - I'll talk with him and then we'll talk with the committee; maybe we can get along without him, but -

H.M.Jr: If you call me, I'll be up there in fifteen minutes.

J: All right, fine.

H.M.Jr: All right, sir.

April 18, 1935.
Thursday.

245E

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

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

H.M.Jr: How are you?

H: Good.

H.M.Jr: Mr. Higgins, I'm calling you up about two jobs.

H: Yes.

H.M.Jr: Was Judge Rosenman's sister ever taken care of?

H: Yes, I wrote to you, Mr. Secretary. Her name is down in Washington now.

H.M.Jr: Oh.

H: The big fault I have here, of course, I have about twenty vacancies now of men I let go with about a six-weeks notice, and, of course, those appointments haven't come through here, and I'm getting pretty worried because these warrants are piling up, you know.

H.M.Jr: Well, to whom did you send them?

H: Well, they went right to the Internal Revenue Department

H.M.Jr:

H: Well, of course -

H.M.Jr: McReynolds is here with me now. You say you sent down twenty appointments?

H: Oh, yes, there must be at least twenty vacancies that I'm waiting now to fill.

H.M.Jr: Well, I'll have them looked up. Now -

H: The Judge's sister is one.

H.M.Jr: The only one that I - I told you - the only one that I personally was interested was Miss Elizabeth Campbell.

H: Yes, well, I've had her in two or three times, Mr. Secretary. Did you get the letter I sent to you about three days ago?

H.M.Jr: No.

H: Well, I wrote to you marked personal and explained to you - I believe you sent me - was kind enough to send me the letter that lawyer wrote saying that he was satisfied with the treatment he got here -

H.M.Jr: Yes.

H: - and you also, I think -

H.M.Jr: Yes, that I know about.

H: I think it was Judge Rosenman. I answered that letter the next day that he had already sent down - a \$1440 position, you see, to start with.

H.M.Jr: A what?

H: A \$1440 job.

H.M.Jr: \$1440.

H: \$1440.

H.M.Jr: But, McReynolds down here said that he spoke to you about a \$2400 job.

H: Well, that's for Miss Campbell.

H.M.Jr: For Miss Campbell.

H: Miss Campbell. Rosenman's sister, of course, has had no experience at all.

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

H: I thought we might be able to raise it later if he's perfectly satisfied now.

H.M.Jr: Yes. Well -

H: I had - in my letter to you I explained that I had in here; we sent down and talked to Miss Campbell and he said that he had it up before and that there was difficulty in starting a woman in this place without a - at that rate, you see? In other words, there was no job for a woman at that rate, and I suggested to Miss Campbell that I could start her in here at \$1800, do you see, as a Field Deputy and then work her into some other place.

H.M.Jr: As a Field Deputy?

H: Yes.

H.M.Jr: Well, now, just a minute. Let me get Mac on the phone.

H: Yes.

H.M.Jr: McReynolds can go on the other phone.

H: Yes, because he and I talked that over before.

McReynolds: Hello, Mr. Higgins.

H: Hello, Mr. McReynolds.

McR: Well, Field Deputies are the ones that go out, of course.

H: Well, of course, she wouldn't necessarily have to do that.

McR: Wouldn't necessarily have to go out, I understand. But, of course, I realize that that is the standard rate. I suppose your objection to anything else would be a question of putting dissatisfaction on your own force.

H: Yes, I tell you, Mr. McReynolds, frankly between you and myself, I've been trying to follow more or less - not to - simply as a suggestion of a sympathizer, do you see?

McR: Yes.

H: He feels as though nobody should come into this office unless experienced to - over \$1800 - that would be in the field. So far we haven't put anyone in there at all, in the field. Of course, that to the person who is in here and lands a job where he could be assigned to some place where eventually he could reach this \$2500 grade, you see?

McR: Yes.

H: And we couldn't drop somebody out who has probably had four or five years experience in that particular grade without filling it and fill it properly if you

McR: Well, I - I'm sure -

H: Of course, I know if the Secretary wants I'd do it if I thought I could do it without injuring the office, you see? Naturally seems to be very fair about it and

H.M.Jr: What kind of work would she do?

H: Well, she would - she'd probably have to wind up in charge of some division here, Mr. Secretary.

H.M.Jr: She would?

H: For that reason, she probably couldn't walk into it totally unexperienced.

H.M.Jr: Well, I'm going to call her up and I'm going to tell her to take this job, see?

H: Yes.

H.M.Jr: And then I'm going to ask you from time to time how she's getting along, see?

H: Yes.

H.M.Jr: And if she gets along all right, I wish you would promote her.

H: Yes, well, I certainly would suggest it to her.

H.M. Jr: And if she - I mean, if you ever want a confidential bookkeeper, anybody like that, you can absolutely trust her.

H: Well, I know she's a fine girl.

H.M.Jr: She's absolutely trustworthy.

H: Well, in fact, I was waiting for her to decide on that idea. My suggestion was, because of the fact that I have a clerk here, and who apparently is a very sincere man, letters that had to be done and he said he didn't see how it could be done immediately but that was the suggestion - to start her out at - the highest rate would be \$1800 and move her along up, you see?

H.M.Jr: All right. Well, now I'll tell her to come down tomorrow.

H: Yes.

H.M.Jr: Should she come to your office?

H: Yes, come right into the office. I've had her in once or twice, Mr. Morgenthau.

H.M.Jr: I'll tell her to come in and tell her that she should be ready to go to work.

H: Yes.

H.M.Jr: She can start in, what, Monday?

H: Why, yes. Here's the trouble, you see, I can swear all these people right in, but my - my orders here are to wait until I get an o.k. from Washington.

H.M.Jr: Well, have you sent - have you sent her name -

H: It is then Commissioner of Internal Revenue - checked by the - by Mr. McQuillan's office here, which takes about ten days and then it goes back to Washington, then I get word from the Commissioner of Internal Revenue, saying you may now appoint this party.

H.M.Jr: Well, will you send her name right to McReynolds?

McR: Well, Higgins -

H: I'll send it right to McReynolds.

McR: Higgins?

H: Yes.

McR: Suppose you go ahead and put her on.

H: Put her right on?

McR: Yes, and send the appointment to me and I'll clear it through the Bureau afterwards.

H: Well, that's all right. That's fine. I just want to say if you could tell the Secretary if there's any way possible that I could get a little more leeway on my appointments here, I could have Mr. McQuillan of the Secret Service check them up, and if he said o.k., I could appoint them. That would help me an awful lot, because I've delayed -- I've only got nine people in in three months.

McR: Well, I tell you, let me get a hold of Schoeneman, who is boss here and we'll clear that up for you.

H: That's fine, because I just had the new chief field men come in and tell me that there's twenty vacancies out there and that these wires are falling back, you see?

McR: You want - you want to be careful who you get, of course.

H: Absolutely.

McR: But, if you get it cleared through McQuillan's office, why, I think you're pretty safe.

H: I think so, yes, but, of course, I wouldn't do it without an o.k. on the thing. Now, on this other - one thing about appointing this lady.

H.M. Jr: Higgins?

H: Yes.

H.M. Jr: I appreciate McReynolds asking that, but I'd rather let Miss Campbell go through the regular routine, so if you'll send her name down to Mr. McReynolds, he'll get her's through and he'll get your others through, and you ought to be able to swear them all in within ten days.

H: Well, that'll be grand if I can do that.

H.M. Jr: I'd rather have her go right straight through with the

others, and then I'll see that McReynolds finds out where your names are being held up.

H: Well, that's great.

H.M.Jr: But, in this Campbell case, they don't have to check her up, you can take my word for it.

H: Oh, I know that. In fact, what I intend her to do is to have her sign the right now to Washington, and I'll -

H.M.Jr: Yes. Well, you send that down and you - they can check it, but you can take my word for it that she's all right.

H: Yes, well, that's fine

H.M.Jr: Let her go through and I'll tell her to come down to see you tomorrow.

H: That's fine.

H.M.Jr: All right.

H: Thank you very much.

H.M.Jr. was very pleased with Mr. Appert's last remark. The interview only lasted a few minutes and nothing of any importance was discussed.

April 18th

Mr. Jean Appert, the French Financial Attache, came in to see the Secretary to-day. He said that the financial situation in the United States has been improving for the last year and that the lowering of interest rates is the best thing that happened in the United States.

J. A: We cannot finance at less than $5\frac{1}{2}\%$.

H.M.Jr: Have you heard what effect it has had getting out these 100 Franc gold pieces?

J.A: Gold coins will not be taken into circulation. It would be immediately hoarded. Our Parliament is adjourned for two months. It will be opened up at the end of May or the early part of June.

H.M.Jr: Are you in the Diplomatic Service or from the Treasury?

J.A: I am from the Treasury. I am here for study and report and sometimes for negotiations.

H.M.Jr. was very pleased with Mr. Appert's last remark. The interview only lasted a few minutes and nothing of any importance was discussed.

April 18th

H. M. Jr. saw the President this morning and the President wants him to make a statement on the bonus. He does not want General Hines to do this. He wants him to say that the administration is ready to give a man who has a thousand dollar certificate coming to him, a Baby Bond or a \$750 certificate with interest. The same thing will hold true, that is, that he cannot cash it for 60 days and can only cash it at the Post Office. The President said that he would like to figure these payments from Armistice Day plus interest. H. M. Jr. did not quite understand what he meant and Mr. Coolidge believes that what the President had in mind was the present cash value would work out at 4%.

Grover Whalen came in to see Mr. Morgenthau this morning and said that the Distilled Spirits Institute want to do some positive advertising.

H. M. Jr. said that their distributors do not seem to be aware of the federal and state laws. There are many cases where we call upon a man and we find that he does not know how to handle the strip stamp, licenses, etc. I suggest that you go into a city where we are making our check up. Take for instance New York City and run an advertising campaign and say something like this: "These are the regulations and we want the honest distributor to assist us by living up to the federal and state regulations and this is what you should do". Then point out to the consumer what he should look for in honest distributors' stores.

H. M. Jr. pointed out to Mr. Whalen that this sort of advertising would help their distributors live up to the law, help to advertise the kind of places to go where they sell liquor and also that this would not be an expensive campaign. He pointed out that in New York City we have checked about 15,000 places and there are about 15,000 more to go. Whalen said he would start the advertising campaign at once. H. M. Jr. also suggested that they include the beer people.

Mr. Whalen also pointed out the fact that we are hurting ourselves by selling at auction seized liquor. He said what we are trying to do is to legalize something, as he put it, "that was not born legally". H.M.Jr. agreed that this was true but our people felt it was the only way we could afford to pay informers. However, he suggested that Mr. Doran check this up with Mr. Graves.

April 18th

Mr. Morgenthau was called on the Hill and testified before the Ways and Means Committee in the House at 8:30.

Mr. Morgenthau met with Chairman Doughton and Messrs. Hill, Vinson and Cooper. With Mr. Morgenthau were Miss Roche, Mr. Hester, Mr. Haas, Mr. Reagh, Mr. Erb and Mr. Upham. Also present were Mr. Price, assistant clerk of the Committee and Mr. Stamm, of the Joint Committee on Internal Revenue.

The subject of the discussion was an amendment to the Social Security bill which, in the opinion of Treasury actuaries, would increase the cost to the Treasury by some \$250,000,000 annually. The amendment would permit annuitants to receive at age 65 even though they continue to work.

The members of the Committee were of the opinion that it would be a mistake politically to attempt to make any change at this stage. They have had considerable of a fight to keep Title II in the bill, but believe that now they can put the bill through in satisfactory shape, and revise it in future Congresses if experience shows the need. To make the point raised by the Secretary on the floor of the House at this time they thought would prejudice the chances of the bill's smooth passage.

The Secretary explained that he thought it his duty to bring the matter to their attention, but in view of their attitude and opinion, he would not press the point.

April 22, 1935.
Monday.

H.M.Jr: Hello.

Bulkley: Hello, Mr. Secretary.

H.M.Jr: Bulkley?

B: Yes.

H.M.Jr: I want to talk to you, if I may, confidentially -

B: Go ahead.

H.M.Jr: - at lunch today I took up the question with the President about that-opening the thing up for sixty days -

B: Yes.

H.M.Jr: And he was perfectly amazed when I told him that Fahey was advocating that.

B: He's not advocating it, he just consented that he didn't think it would do much harm.

H.M.Jr: Well, the President said that his understanding with Fahey was that it - if possible, it should not be opened.

B: Yes.

H.M.Jr: Now, if - let's leave it - if you wish to you can quote me as saying, let's leave the President out of it unless you have to.

B: Yes.

H.M.Jr: That if it is at all possible not to reopen it, we'd like not to have it reopened.

B: Well, now I'll tell you how I'm fixed about that -

H.M.Jr: Yes.

B: - I took that view and I battled for it in an open fight on the Senate floor. We got licked.. Now you know there's been some little criticism about what conferees do and to the effect that they ought to support the Senate view. Now, of course, we can support the Senate view and with more vigor - with less vigor, but I don't think to oppose it.

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

B: So, I wish you'd put that up to Steagall and get him to take the of opposing that thing.

H.M.Jr: I see. Well, I'll talk to him. I'll - I'll get him on the wire and talk to him.

- 2 -

- B: Now, I tell you frankly, though, I don't think it makes so very much difference because they've pretty near got the sixty days anyway in the House, so then if anybody made an application before the bill is signed, and then they do sixty days, well, that's pretty near as open as it would be if you reopened for sixty days. But, I -
- H.M.Jr: Well, if you think it's useless I - I - don't want to -
- B: Well, I tell you, I don't think it matters as much as you think. I'd rather not have had it, but I think possibly that if we strike out the whole darn sixty days and have it wide open for thirty days it might be even better than to have stay open for sixty days.
- H.M.Jr: Well, I - I - I -
- B: It's just a misunderstanding.
- H.M.Jr: Well, I'm going to leave it in your hands because I couldn't -
- B: Well, we got pretty badly licked in the Senate.
- H.M.Jr: Well, you're chairman of that committee, and I'm - I'm not going to go to anybody else, see?
- B: Unless you would go to Steagall, that would be very proper.
- H.M.Jr: Well, I'll talk to Steagall; I'll tell him the same thing.
- B: Yes. Say, we got along pretty fair about Eccles this morning.
- H.M.Jr: Yes, grand.
- B: No, dammit, there was no vote elapsed and we voted not to elapse any vote.
- H.M.Jr: Oh, oh.
- B: I don't know who said sixty-two. That isn't right and we especially voted that we would not announce any vote - emphasize any division.
- H.M.Jr: Well, I think that's fine.
- B: Yes.
- H.M.Jr: I think that's fine. I'm very much pleased.
- B: I'm still trying to get him to stop and not have any fight.
- H.M.Jr: Well, to get it out of that sub-committee was the main thing, wasn't it?
- B: Well, no, I think the main thing is to avoid having the man fight on the floor.

H.M.Jr: Well, I appreciate what you've done very much.

B: All right. Goodbye.

H.M.Jr: And - we haven't made any move yet on Mrs. Pike.

B: Well, -

H.M.Jr: And I'm not going to - I read her whole case.

B: All I'll ask you to do there is, let me know what you have in mind. I - I'd like to talk to you a little further -

H.M.Jr: O.K.

B: I didn't get a chance to tell you the whole story,

H.M.Jr: Well, I'd like to see you.

B: - because there's two sides to that little matter there.

H.M.Jr: All right.

B: - It's right complicated.

H.M.Jr: I think it is.

B: Yes.

H.M.Jr: All right, Senator.

B: All right, sir.

H.M.Jr: Thank you.

April 22d

The President said that he would announce on Wednesday his program for the 4 billion 8. That it would be a series of four announcements in four successive days.

That on Monday he would announce that Frank Walker would take his old position as Secretary of the National Emergency Council and that in addition he would receive all applications for projects for the 4 billion 8 and also would give out the information as to which projects had been approved and which disapproved.

On Thursday he would announce the formation of the Allotment Board, of which Harold Ickes would be the senior member. He stopped and said, "How do you like that one?" I said, "Well that sounds like a go out" and he said, "the President will be ex-officio member and between the Allotment Board and the President will be a small unannounced committee of 5 or 6 who would meet twice a week and then the committee will really run the show.

He said, "You can be on that committee yourself or have Bell or Peoples" and I said "No, that at the start I would like to be on that committee myself as I have worked with him for so many years on agriculture and conservation and I felt that I understood this work and that, furthermore, his whole future depended on the successful launching of the 4 billion 8".

He said in the committee will be himself, myself, Ickes, Wallace, Hopkins and Joe Kennedy. He said that Joe Kennedy is going to sit at my side and act as stenographer. He said, "I can't yet tell either Hopkins or Ickes that Kennedy is going to be over them". He said, "They will have to learn that gradually". I said, "Has Joe Kennedy accepted" and he said "Yes" (but this does not check with my telephone conversation before lunch with Kennedy in which he said he was on his way to the White House to tell the President that he would not accept.

The President said Hopkins would head up another group which have to do with following up the projects (Hopkins' job has been explained to me four times but I still cannot understand it).

He said, "I am going to announce that there are enough existing agencies in the government to handle all of these projects, with the exception of rural housing and rural electrification" He said, "I have got to get a new man to run rural electrification".

When he got all through, I told him that I thought it my work. I reminded him that I told him a month ago that business had turned the corner and he said, "I will never forget the way you announced that you were going to make a prediction".

I suggested that he ought to go up to Dutchess County. He said, "You know I really am feeling very fit", and I must say that I have not seen him glow with health the way he has now in months.

I showed him the memorandum by Hansen, which Phillips sent over, in regard to stabilization and he got terribly angry and said, "That man should absolutely be fired". I told him that I did not want to leave the memorandum with him but he said it was quite urgent and he wanted it to be left with him and so I did. I told him that Cordell Hull had not seen the memorandum before it left the State Department

Personally, I think it is one of the most stupid and anti-New Deal memoranda that I have seen in a long time and the thought that this was to be sent to the various American Embassies abroad made my blood boil.

When I showed the President the Phillips' memorandum he said, "J. P. Morgan has as much influence in the State Department as he ever did".

* * * * *

H. M. Jr. called the President to-day and told him that the foreign exchange markets were closed to-day; that he was going to send for the Mexican Ambassador and see if he could not arrange to have them sell us whatever silver they bought in London; that this silver would take care of us pending their Financial Agent coming here to discuss their problems with us.

He also told the President that Mexico fired the head of the Central Bank of Mexico, which is very gratifying.

The President also agreed to see Mr. Morgenthau on the bonus question this afternoon.

Mr. Morgenthau also told the President that Winn Reifler was coming over this morning and that he was going to make definite arrangements with him in regard to making the investigation of Moffett's organization.

General Hines, Mr. Bell and Mr. Morgenthau discussed for several hours the bonus bill.

At 2 o'clock Mr. Morgenthau, General Hines, Major Breining, Mr. Bell and Mr. Haas had a conference on the bonus bill with the President. The following are the President's comments:

1. The President is strongly opposed to compromising on bonus legislation at this time, pointing out that in the past when compromises were made, the Veterans' bonus advocates always added to the compromise. He added further that it would be fatal to approve any bonus bill now, and that he did not approve Senator Harrison's plan.
2. The President indicated that there is only one thing to do at this time and it is the simplest solution. That is, to discuss with The Congress a permanent policy with relation to Veterans' legislation. The President previously has indicated his willingness to discuss this point. General Hines pointed out that a permanent policy was included in the Harrison bill, but The President felt that the treatment there was inadequate.
3. After that, the President said that it comes down to what the Treasury can do. The answer is that the Veterans have a contract with the Government. The original contract called for payment in 1945. The Treasury must think about the payment of this money at that time. The Treasury has arranged its financial program with this obligation in mind. He pointed out that the contract has a discount value and that the discount or interest rate is 4 per cent. At the time the 4 per cent rate on the contracts was fixed, The President thought that the rate the Government was paying for its money was somewhat higher. He pointed out that the rate of interest now paid on Government funds has been reduced considerably, and that the Veterans' contracts might be re-examined from this point of view. He then discussed the principle features of the Baby Bonds indicating that the prime reason for using bonds rather than cash was to keep the funds in the hands of the Veterans. The Baby Bonds have certain features, as he pointed out, which tend to encourage this. For example, if they are cashed within a year only the face amount is payable. At later dates interest accrues reaching a maximum rate if they are held for ten years.

April 22, 1935.
Monday.

251A

H.M.Jr: Hello.

Harrison: Hello.

H.M.Jr: Pat?

H: Yes.

H.M.Jr: Henry talking.

H: Yes.

H.M.Jr: We've just been over to the White House, General Hines, Bell and I -

H: Yes.

H.M.Jr: - on the question of the bonus. Now, what's your pleasure as far as we're concerned?

H: Well, I thought somebody from Treasury ought to appear before the committee, being as the discussion is bonds, and so on. They may want to ask some questions. I don't think there's a long treatise on it or anything like that because I want to wind up tomorrow, and I want Hines there. I'm having a hearing now. I'm trying to get through this afternoon and have just a few witnesses in the morning.

H.M.Jr: Well, if I come up, I mean, if anybody comes up, the President wants me to go from the Treasury, and I'd simply discuss the question of - not of any method, but as to the financing -

H: That's right.

H.M.Jr: - and that's all.

H: That's right.

H.M.Jr: Now, I want to tell you beforehand-

H: Yes.

H.M.Jr: - that I - I'm going to say that any bill that doesn't provide the money to taxes, that we've got to oppose - be opposed to it because it isn't within the Budget.

H: Yes, Hines doesn't think that this is called for, but he's going to hunt the \$130,000,000 up there

H.M.Jr: Well, I wanted you to know what I was going to say because you might not want me.

H: Yes, well, that's all right. All I want to do is to

know their proposition, and, of course, your estimate on the cost on each one of these.

H.M.Jr: Well, I thought that Hines could go into the various plans and analyze it.

H: Yes.

H.M.Jr: I would simply state the position of the Treasury in regard to any money that isn't provided for within the Budget, see?

H: Yes.

H.M.Jr: I can't take any other position.

H: Yes, well, you've got your latest receipts there that shows that their returns have been coming in much better lately.

H.M.Jr: Yes.

H: All right, Henry. I'd come if I were you about eleven o'clock.

H.M.Jr: About eleven.

H: I've got - we meet at ten, but I won't get to you until about eleven.

H.M.Jr: I see. Well, you don't want me first and get rid of me?

H: No, because I want to get through with the Legion first.

H.M.Jr: I see.

H: And, so I believe if you get there by eleven, it's all right.

H.M.Jr: Get there at eleven.

H: Yes.

H.M.Jr: And - when you want General Hines, he's here.

H: Well, I think Hines ought to be here in the morning early.

H.M.Jr: He ought to be there early.

H: Yes.

H.M.Jr: What do you call early?

H: Ten o'clock.

H.M.Jr: Ten O'clock.

H: Yes.

H.M.Jr: All right.

H: All right. [unclear] indicated that nothing should be done or would in any way conflict with The [unclear] budget statement.

H.M.Jr: He says, yes.

[unclear] said that the Secretary of the Treasury should testify but that he should make no statement which would in any way conflict with the budget program. That is, to insist that Veterans' bonus expenditures should have to be met through additional tax levies. If the Secretary of the Treasury were asked to suggest how funds might be raised through taxation, the Secretary could hand them the inheritance tax proposal which the President read at this conference.

At lunch to-day with the President he said that if we would have been willing to predict that when [unclear] went to 4.70 it could come back so quickly to 4.65 and stay there.

I asked him if he had read the article in yesterday's Times on "Silver and India" (it is attached herewith) and he said he had and he had been tremendously interested and in fact had sent it over to me.

He said I was particularly surprised to see that the Times printed it, as it was so contrary to the usual news that the Times carries from England.

H.M.Jr. called on Mr. Moffett and asked him whether it would be satisfactory if Mr. Welfler made a study of the present condition of his organization in order to be of assistance to his successor. Mr. Moffett was very agreeable and this pleased Mr. Morgenthau.

Joe Kennedy called up and told Mr. Morgenthau that the President gave him the plan on the 4 billion B over the week-end and offered him the job to head it up; that he was going to turn the President down because the only way he could take the job would be if the President fired him, which he knew the President would not do.

4. The President indicated that nothing should be done or agreed to which would in any way conflict with The President's budget statement.
5. The President felt that the Secretary of the Treasury should testify but that he should make no statement which would, in any way conflict with the budget program. That is, to insist that Veterans' bonus expenditures would have to be met through additional tax levies. If the Secretary of the Treasury were asked to suggest how funds might be raised through taxation, the Secretary could hand them the inheritance tax proposal which The President read at this conference.

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At lunch to-day with the President he said none of us would have been willing to predict that when Sterling went to 4.70 it could come back so quickly to 4.85 and stay there.

I asked him if he had read the article in yesterday's Times on "Silver and India" (it is attached herewith) and he said he had and he had been tremendously interested and in fact had sent it over to me.

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H.M.Jr. called up Mr. Moffett and asked him whether it would be satisfactory if Mr. Reifler made a study of the present condition of his organization in order to be of assistance to his successor. Mr. Moffett was very agreeable and this pleased Mr. Morgenthau.

* * * * *

Joe Kennedy called up and told Mr. Morgenthau that the President gave him the plan on the 4 billion 8 over the week-end and offered him the job to head it up; that he was going to turn the President down because the only way he could take the job would be if the President fired Ickes, which he knew the President would not do.

April 22, 1935.
Monday.

252A

H.M.Jr: I'd like to make a move if it's agreeable to you - I've been talking to the President about it - Hello.

Moffett: Yes.

H.M.Jr: He's been talking to me about your successor - And naturally I'd like to talk to you about it -

M: Yes, sir.

H.M.Jr: And what I'd like to do is - I understand that you get only but one more week?

M: I was planning to get away on next Sunday, yes.

H.M.Jr: Well, I wondered if you'd care to have lunch with me on Wednesday.

M: I'd be delighted.

H.M.Jr: And - what I'd like to do is to sort of pick up the ends - sort of carry it over for whoever is going to succeed you.

M: Yes.

H.M.Jr: Winn Reifler is in town and he has nothing to do -

M: Yes.

H.M.Jr: - and I'd like to have him come over and see you and he can spend a couple of weeks sort of carrying over and then whoever the man is succeeded, he could sort of hand it on to him, you see?

M: Yes.

H.M.Jr: Now, would that be agreeable to you?

M: I was going to talk to the President this morning, because naturally the organization is a little bit up in the air, and one of these big operators, the insurance companies and all may start to hesitate a little if they think there's going to be a decided change in policies or anything.

H.M.Jr: Well, naturally, I mean - I - I -

M: And before I get away, I naturally like to keep it upon an even keel as far as I can.

H.M.Jr: Well, would it be, I mean would it be agreeable if Reifler called on you?

- 2 -

M: You bet.

H.M.Jr: And then he could sort of - you could -

M: He's in town, is he?

H.M.Jr: Yes.

M: Yes, I'd like him very much to come here.

H.M.Jr: Fine, then he could spend a little time there with you and then picking up what's going on and then -

M: Anytime.

H.M.Jr: Well, I - he's coming in to see me in a little while and I'll tell him to come over and see you.

M: Fine.

H.M.Jr: Now, I - I'm kind of fast, I mean, the - I didn't - this - but the President asked me to help him on it.

M: Yes.

H.M.Jr: And anything that I want to do, I want it to be agreeable to you because you've done a swell job and I'd like -

M: Well, I would - I'd be perfectly delighted to get Winn over there and get him the picture for you because I think that - I know some people think that maybe I'm exaggerating a little bit, and -

H.M.Jr: Well, let's leave it that way and then will you come and have lunch here at the Treasury with me at one o'clock Wednesday?

M: I'd be delighted.

H.M.Jr: Thank you very much.

M: Thank you, Mr. Secretary.

APRIL 21, 1935.

SILVER RULING SEEN ENDING MONEY WAR

All Currencies to Feel Decision
of President to Buy Metal
at World Price.

BRITISH POLICY AFFECTED

Pound Would Rise to High Gold
Parity if Silver Topped \$1,
Says F. E. Holsinger.

By **FREDERIC E. HOLSINGER.**

Special Correspondent, The New York Times.
LONDON, April 12.—The announcement by Henry Morgenthau Jr., Secretary of the United States Treasury, that President Roosevelt had decided that the Treasury should buy silver at whatever might be the world price of the metal, following upon the recent rapid rise of the price, insures the implementing of my proposal, which was published in *The New York Times* on March 5 last, that the United States of America and the countries of the gold bloc should compel Great Britain to reestablish the pound sterling at a high gold parity through the forcing up of the gold price of silver.

The refusal of the Government of Great Britain to consider the reestablishment of the pound sterling is based upon the belief that the country is completely free to regulate the parity of its currency unit with gold. The facts are, however, that Great Britain is the only country in the whole world that does not enjoy that freedom and that the parity of the pound sterling with gold is dependent upon the gold price of silver.

The interdependence of the gold value of the pound sterling and the gold price of silver lies in the fact that sterling is linked with the Indian rupee, a silver coin, at 15 pence to the rupee. As sterling is, ordinarily, linked with gold, the sterling-rupee exchange constitutes a form of bimetallicism which has brought upon India a series of exchange and currency crises.

NEW YORK TIMES

April 21, 1935.

Stability Method for Rupees.

Periods of exchange and currency stability have been insured by the device of issuing a coin, which contains a quantity of fine silver that is small enough to maintain the bullion value of the rupee, ordinarily, at less than the nominal or sterling value of the rupee. Thus, the present bullion value of the rupee in sterling is 10 pence, while its nominal value is 15 pence. The success of the device is, of course, dependent upon a low sterling price for silver. Whenever the sterling value of the silver in the rupee rises above the nominal value of the rupee, India is caught in the vise of a bimetallic exchange and currency crisis.

While the pound sterling is attached to gold at the statutory parity of one sovereign (or 113 grains of fine gold), India is fairly safe. But while the pound sterling is detached from gold and consequently depreciated in terms of gold, the bullion value of the rupee automatically rises in terms of sterling, the margin between the bullion value and the nominal value shrinks, and India is brought perilously near an exchange and currency crisis. The steady rise of the gold price of silver during the past five weeks is daily bringing India nearer and nearer such a crisis.

What happens in India when the bullion value of the rupee in sterling exceeds the nominal value of the rupee in sterling was demonstrated during the past near "boom." Although the pound sterling was then less depreciated than it is today, the sterling value of the silver in the rupee rose to two shillings and ten pence!

The sterling-rupee exchange was thrown into utter chaos. The export trade of India collapsed. The traditional suspicion of the Indian people that the Indian currency is always manipulated in the interests of Great Britain and against the interests of India was transformed into a bitter conviction that the country was the helpless victim of British financial policy.

Crisis Averted by Boom's Collapse.

Violent political reactions were produced. It was only the collapse of the "boom" that terminated the crisis.

The total weight of the Indian rupee is 180 grains, Troy. The weight of the fine silver in the rupee is 165 grains. In other words, a little over a third of an ounce (480 grains) is the quantity of fine silver in the rupee. At the present moment, the sterling price of an ounce of silver is over 30 pence.

If it advances by 25 pence, the sterling-rupee exchange would be smashed and, in order to restore it, Great Britain would be forced to raise the gold value of the pound sterling.

Let us examine the proposition in terms of the dollar price of silver. The dollar price of an ounce of fine silver today is over 55 cents. Upon the basis of the present gold value of the pound sterling, a rise of the gold price of silver to \$1.25 would compel Great Britain to once sharply to raise the gold value of the pound sterling. If the gold value of the pound sterling depreciates below the present level, the collapse of the sterling-rupee exchange would occur even before silver touched \$1.25.

Every advance of the price of silver beyond \$1.25 would compel Great Britain correspondingly to raise the gold value of the pound sterling.

Indeed, it is possible that the raising of the gold value of the pound sterling would be forced upon Great Britain immediately silver reaches a price of \$1 per fine ounce. Great Britain cannot take any risk of the collapse of the sterling-rupee exchange, and long and bitter experience has taught both the gov-

Continued on Page Five.

*My Times
4-21*

1935.

BID AND ASKED QUOTATIONS

C F 5

SILVER RULING SEEN ENDING MONEY WAR

Continued From Page One.

ernment of Great Britain and the government of India that, in order to maintain stability in the sterling-rupee exchange, it is indispensable that the gold value of the silver in the rupee should not exceed half or, at worst, two-thirds of the nominal gold (or sterling) value of the rupee.

Therefore, if the price of silver reaches even \$1 per fine ounce, Great Britain would be forced to raise the gold value of the pound sterling. Certainly Great Britain would be forced to abandon all hopes of the restabilization of the pound sterling at a parity of less than five U. S. A. dollars.

Plan to End Currency War.

But if a prompt termination of the currency war which Great Britain is waging against the United States of America and the countries of the gold bloc is wanted, it is necessary that the price of silver be forced up to \$1.25 per fine ounce. There must, moreover, be the determination to force up the price even higher, if Great Britain persists in her refusal to restabilize the pound sterling at at least five American dollars.

A price of \$1.25 per fine ounce is a commercial price, and the an-

nouncement that the President has decided to buy silver at whatever might be the world market price insures the early attainment of that price. Such a price would, as I have just explained, be the death-knell of the mischievous currency policy that Great Britain has been carrying out since September, 1931.

Business men throughout the world should, therefore, take heart today that the danger of the further depreciation of the pound sterling and of the devaluation of the gold currencies of Europe will promptly be ended, in consequence of the momentous decision of President Roosevelt.

It is a remarkable coincidence that the present depreciation of the pound sterling, like the depreciation of sterling between 1919 and 1925, has been attended by a rise in the gold price of silver. The rise in the gold price of silver after the war was the result of the vast absorption of the metal by India, China and other eastern countries in payment of exports of raw produce.

The recent rise in the gold price of silver, I need hardly point out, is the result of the decision of the United States of America to increase its stock of monetary silver to one-third of the value of its stock of monetary gold.

Defense in Reserve by Britain.

Theoretically, it is open to Great Britain to counter an attack upon its monetary policy through the raising of the gold price of silver by either of two devices. One is

the raising of the sterling price of the rupee from 15 pence to 24 pence. The other is the reduction of the quantity of fine silver in the rupee.

Those devices are, however, quite impracticable. Incidentally, the former was tried during the post-war "boom" and abandoned. The latter was considered and rejected. Thus the only course open to Great Britain would be the raising of the gold value of the pound sterling.

It is, accordingly, within the power of the United States of America today to put an end to the currency war, which is retarding the economic recovery of the whole world, by forcing up the gold price of silver, as is advocated by me in the interview which was published on March 5. I interpret the decision of President Roosevelt to set no limit to the price at which the government would buy silver as a response to that suggestion. It now remains only to await the implementing of the President's decision by the Treasury.

The British currency policy is dead. Long live the Gold Standard!

253 A
April 22, 1935.
Monday.

H.M.Jr: Hello.

McAdoo: Hello.

H.M.Jr: Senator McAdoo?

McA: Yes.

H.M.Jr: Henry Morgenthau -

McA: Oh, hello, Mr. Secretary. How are you?

H.M.Jr: How are you? Jefty O'Connor just called me up on the \$2,000,000 trans-pacific -

McA: Yes.

H.M.Jr: And I understand there's something of a jam.

McA: There's a little jam there, and here's all there is to it -

H.M.Jr: Yes.

McA: The Postmaster General now has the power to make these foreign airmail contracts under the law, but the \$7,000,000 which the appropriation bill carries - the Post Office appropriation bill - was already absorbed by existing foreign airmail contracts so we had no money to make any new ones. Now, upon my motion - my method on the floor of the Senate, they increased the \$7,000,000 to \$9,000,000, which doesn't mean the Postmaster General has got to expend that much, but simply put this within his power to advertise the bids and to contract within that limit. You see?

H.M.Jr: I see.

McA: Now, the Post Office Department will get back in return all the mail revenue that comes from the operation of this line. Now, this is one of the greatest things that can be done for our Commerce in the Orient, because we have already under American corporation and with American Equipment and with American personnel three thousand miles of fine airways in China, running from Canton on the south to Peking on the north and from Shanghai up the Yangtze river about a thousand miles into the interior. Now, that's the Chinese National Aviation Corporation, formed by the Chinese Government and the Pan American, which, by the way, has forty-nine per cent, I understand, and the Chinese Government has fifty-one, but under contract with the government, our people, the American corporation, you see, will have absolute control of the operations and maintenance but the American equipment and everything else has such a first class line, while this line across the Pacific will connect with that line at Canton, which is the southern ex-

- 2 -

tremity and is just west of the British possession at Canton. The British won't let you come in there because it's a naval base.

H.M.Jr: Yes.

McA: Now, it's a daring adventure - it's the greatest adventure in the air that's ever been attempted.

H.M.Jr: Yes.

McA: It's a wonderful thing for our entire commerce because it'll bring New York within five days of Canton, China, and it will - it's of great importance also to the whole Pacific Coast.

H.M.Jr: But, Senator, the project interests me tremendously, see?

McA: Yes. I've given you this little outline because I didn't know how familiar you were with it.

H.M.Jr: Well, I - I understand it better now that you've outlined it, and it's just a question where it's going to fit in the Budget, you see?

McA: Yes. Well, now that's the point I wanted to bring to your attention. Of course, we - we up there in the Congress from time to time in the Budget we don't like to do it, but something comes up like this, for instance, which you can't get a Budget estimate in time for even if you could get it at all. Now, all that's necessary here, Mr. Secretary, is to have the Budget Bureau, if they would do it, send up a little supplemental estimate covering the \$2,000,000, and I think the whole opposition will disappear and it's all centered in Mr. who is a good fellow - I don't think he has any - I don't think he wants to be small, but he's thinking on the technicality, you see, and he's going to move in the House today, if possible, to send the bill to disagree, don't you see -

H.M.Jr: Well, then -

McA: Now, I'm one of the Senate Conferees and I'll be there at the next conference. I've been on my neck over two weeks here with this darn carbuncle. I've been trying to get rid of it, and I'll be able to take a hand in the fight, but if in the meantime, we can get that supplemental estimate, it'll be a great thing. Now, I'd like to make this suggestion to you, aside from the fundamental merits here, for \$2,000,000 we couldn't do anything more on foreign trade so great as this or for ten times that sum, but in addition to that, politically it's one of the wisest things we can do because we don't - the whole aviation industry in California is tremendously powerful - we built it up there, you know - very great proportion.

- 3 -

is a little sore on this administration anyway, and the whole State is for this thing, and if we were to be identified with the defeat of it, it would be really very bad,

H.M.Jr: Well, Senator -

McA: That's only

H.M.Jr: Let me take this matter up with Bell -

McA: Yes.

H.M.Jr: - and let me talk it over with him, see, and I'll see if there's any out on it and either Bell or I will call you back.

McA: Thank you very much. Now, let me make this final suggestion to you because this part made me rave. They are suggesting that the suggest to the Senate conferees that we might put this into the Deficiency Bill which will come along before the end of the session. Well, now I don't think it can legally go into the Deficiency Bill because it's not a deficiency. In addition, to that, you got this to consider, they have got to do the exploratory work - this is their line - establishing stations, I mean, land stations that will accomodate radio surfaces in these planes for safe navigation. They've got to do all that exploratory work right now, this summer, because the typhoon season sets in about October in the Phillipines and if you delayed them too much, you practically put this thing off for a year, that's about the size of it. Now, we've got such a wonderful start, it does seem to me a pity that we have to wrangle over a couple of million dollars to do this great thing for the country.

H.M.Jr: Well, let me talk it over with Bell -

McA: Yes.

H.M.Jr: - one or the other of us will give you a ring.

McA: Thank you very much and I'll be right here at the Shoreham Hotel.

H.M.Jr: Tell me, have you heard anything new on Eccles?

McA: Haven't heard a word on it because I haven't been there.

H.M.Jr: I see.

McA: Well, what's your attitude about that?

H.M.Jr: Well, I - I think - I just think he must be confirmed and that would be a great administration and I think it

would give some of the big bankers up in New York a great ha-ha if he could - if he'd be defeated.

McA: Well, how do you feel about separating that title too. I think that ought to be done.

H.M.Jr: Well, that - that Senator, when it gets between the President and Carter Glass - I'm smart enough to keep out.

McA: Yes, but, I'm not talking about that, I'm talking about getting your bill through.

(Laughter)

H.M.Jr: That's something between the President and Carter Glass. I've been around here long enough to know I don't want to get between those pistols.

McA: Well, I should say not.

H.M.Jr: No.

McA: But, aside from that I was just thinking on the merits regardless of any

H.M.Jr: Well, believe me, I'm going to be out of town if anybody asks me about that.

(Laughter)

McA: All right. Well, you call me back, and I'll - I'll consider this Eccles thing; I want to say this to you that when I was laid up here I left my vote with Carter because in the committee only because I couldn't be there, but I think I'll be out on Wednesday, therefore, I'll be able to act for myself.

H.M.Jr: Fine. Thank you.

McA: All right, goodbye.

PAYMENT OF ADJUSTED-SERVICE CERTIFICATES

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-FOURTH CONGRESS

FIRST SESSION

ON

H. R. 3896, S. 2605

AND OTHER BILLS RELATING TO PAYMENT OF
ADJUSTED-SERVICE CERTIFICATES

APRIL 22, 23, and 24, 1935

Printed for the use of the Committee on Finance



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STATEMENT OF HON. HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY

The CHAIRMAN. You know the matter that is before us, Mr. Secretary. Will you please proceed?

Mr. MORGENTHAU. Your committee has under consideration a number of bills proposing plans for settlement of the World War veterans' adjusted-service certificate claims. I shall not attempt to go into the merits of any of these bills or to analyze them in detail, believing that to be a service that can best be performed by other officers of the Government. The Treasury is, however, deeply interested in any problems which involve additional or earlier expenditure of public funds than those for which careful preparation has already been made in Budget and financing plans.

I believe it is true of all the so-called "bonus settlement plans" which you have had under consideration that each one of them calls for greater or earlier payments from the Treasury than were contemplated in the original adjusted-service certificate plan and payments during the fiscal year 1936 for which no provision has been made in the Budget of that year.

All of the financial plans made by the Treasury for the coming year have been based on adherence to the President's budget. Moreover, the credit of the United States Government depends very largely, in my opinion, upon scrupulous adherence to the President's program.

Senator BAILEY. I dislike to interrupt you, but I feel that I must. We have a bill now pending in the Congress, in the Senate, authorizing a billion dollars in bonds. That is outside of the Budget, is it not?

Senator KING. The so-called "Bankhead bill."

Mr. MORGENTHAU. Are they guaranteed bonds?

Senator BAILEY. Issued by the United States Government.

Senator KING. And guaranteed by it.

Senator WALSH. Government loans, like the R. F. C.

Senator BAILEY. Issued by a corporation and fully guaranteed as to principal and interest.

Mr. MORGENTHAU. That creates a contingent liability.

Senator BAILEY. Have you looked over that bill?

Mr. MORGENTHAU. I do not believe, sir, that it has been referred to the Treasury, as far as I know.

Senator BAILEY. Would you prefer that it should be, before we vote on it?

Mr. MORGENTHAU. That is entirely up to you, but as far as I know it has not been referred to the Treasury.

May I continue?

The CHAIRMAN. Proceed.

Mr. MORGENTHAU. Moreover, the credit of the United States Government depends very largely, in my opinion, upon scrupulous adherence to the President's program. I don't think we can continue to enjoy the present favorable rates and favorable market for the sale of Government securities if new expenditures are incurred which go far beyond the limits of those which have already been outlined. A material decline in the market price of Government securities, which would be very likely to result from large expenditures outside

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WEATHERS, BY MR. WHEELER: THE HOUSE WILL BE PERMITTED TO PROCEED TO THE ORDER OF BUSINESS.

"The payment of the bonus in cash might go too far," Mr. Thomas continued. "Likewise, the Frazer-Lenke proposal or the Wheeler Treasury note issue proposal might reduce the value of the dollar far below the 1920 level, thereby causing an undesirable increase in prices and living costs."

Now, when the distinguished Senator from Oklahoma, the chief sponsor of inflation, advocates caution when it comes to the proposed monetary changes and he says we should go slow before we change the monetary system of this country, I submit that the most rapid inflationist in this House should stop, look, and listen.

The administration, under the New bill, could expand the currency by issuing silver certificates to the amount of about \$1,600,000,000. They could do that without additional legislation. They already have that power.

If the administration so desired, they could use the \$2,000,000,000 stabilization fund—gold profit allocated for this specific purpose—and issue \$5,000,000,000 of currency and pay off the soldiers' certificates. In these 1943 three measures, the administration now has the power to expand the currency measures, the administration now has the power to expand the currency \$9,500,000,000, or any part of it. All these powers have been conferred since the first Patman bill passed the House; but the trouble is, so far as the Patman proposal is concerned, that the administration does not choose to exercise its powers of inflation. Patman's difficulty is that they do not choose to pay these certificates through the inflation route.

A short time ago we authorized the issue of baby bonds. I suggest that we can pay these certificates by sale of these bonds, and with their proceeds, pay off certificates in the regular way. With the soldiers' organizations, the auxiliaries, the veterans and their families, and the people who would be glad to see them paid in cash—perhaps some creditors—you could, in my opinion, put on a campaign and sell \$2,000,000,000 of baby bonds, or at least a large proportion thereof.

CONCLUSION

With our present policy of spending money, determined to increase the price level, and all that sort of thing, I believe the country wants these adjusted certificates paid. I believe they recognize it is for personal services rendered. I believe they want them paid, and paid now. I believe they want them paid in the same way that the war contractors were paid \$3,000,000,000 in the same way that the railroads were paid \$2,000,000,000 in the same way that all current obligations of Uncle Sam are paid.

I submit in closing that the American people do not believe in repudiation of the debts owing to us by foreign countries for money and supplies received from us to save their native lands from destruction. We generally talk in angry tones about such repudiation, yet we have repudiated a debt to our very own. Practically everyone was employed during the war. Practically every civilian employee, every corporation connected with and used by the Federal Government in that war received adjusted pay in cash, except the manpower that was called to the colors in that grave crisis. It is our thought that the adjusted-service certificate is an acknowledged debt. It is adjusted pay for personal services rendered. We can't get it out of our mind that the men or women who rendered the service are the ones who should receive the benefits of this adjustment in pay.

Already 180,000 have passed to the great beyond. On January 1, 1945, more than 300,000 additional will have failed to receive adjustment in their service pay. In other words, on the technical due date, January 1, 1945, more than 500,000 World War veterans will have failed to get any personal benefit out of this adjusted-service plan. The services were rendered more than 10 years ago. Using the accepted adjusted-service pay, computing the interest in the same way that Uncle Sam has computed it against the soldier, the debt is now past due. In my opinion, the American people do not want this debt repudiated.

I respectfully submit that the Members of this House who desire to do something for the soldiers during their lifetime should take the strongest vehicle to pay that debt. It was for this purpose that I introduced H. R. 2890, and I am happy to present it to you for your serious consideration. [Applause.]

the budget, would work a grave injustice upon all purchasers of government securities, and would tend to slow up the whole recovery program.

The Treasury, therefore, would view with great concern the enactment of any bill which calls for large additional expenditures, without compensating additional taxes. It seems to us of the utmost importance that if any adjusted-service certificate settlement calling for increased expenditures, or for earlier expenditures than those already taken into account, should be enacted, Congress should make provision for raising revenues sufficient to cover the additional expenditures in the year or years in which they are to be incurred.

If it should be thought desirable to seek new sources of revenue for this purpose, the Treasury would be glad to offer its suggestions.

The CHAIRMAN. Thank you, Mr. Secretary.

Senator GORE. I want to ask one question of the Secretary, Mr. Chairman. Sometime ago I introduced a resolution, S. 71. Later I introduced a revised edition of it, Senate bill 2365, the point in which was authorizing the President to enter into agreements with our debtors abroad, and to readjust the indebtedness, the first condition being that they pay in cash or provide in cash approximately \$2,000,000,000, an amount sufficient to liquidate and retire these certificates, the money to be applied to that used for that purpose. If you are prepared now, I would like to have your impression of it, your views. If not, I would like to ask that you submit a report to the committee on it.

Mr. MORGENTHAU. I will be glad to communicate in writing.

Senator GORE. Very well.

Senator LA FOLLETTE. Mr. Secretary, has the Treasury given any consideration to a program for raising additional revenue?

Mr. MORGENTHAU. Yes, sir.

Senator LA FOLLETTE. Would you be willing to submit that for the consideration of this committee?

Mr. MORGENTHAU. In coming up here we discussed in the Treasury various suggestions for increased revenue in case Congress did pass a bonus bill, and we feel that a method which would be absolutely not inflationary and produce the revenue would be a Federal inheritance tax, created on the same basis as the income tax, administered the same way.

Senator LA FOLLETTE. Is that in such shape that you could submit it just for the consideration of the committee?

Mr. MORGENTHAU. We could get it up here within 24 hours.

Senator CLARK. Do you mean a graduated inheritance tax with surtaxes, the same as the income-tax structure?

Mr. MORGENTHAU. Exactly. And we estimate that that would produce somewhere between, roughly, from 2 to 6 hundred million dollars a year.

Senator CONNALLY. You mean for the executive use of the committee?

Senator LA FOLLETTE. Yes.

Senator CONNALLY. You do not mean to give it out to the press?

The CHAIRMAN. Will you be ready to respond to the call of the committee?

Mr. MORGENTHAU. Yes, sir.

Senator BLACK. Do you mean with reference to raising taxes, that if we pass either one of these bonus bills, it will be necessary to raise taxes?

Mr. MORGENTHAU. That is the position as Secretary of the Treasury that I have to take.

Senator BAILEY. Why do you have to take it, Mr. Morgenthau?

Mr. MORGENTHAU. Because the President set up a budget, he has made very definite statements what he thinks the deficit will be, and the requirements for additional capital. I worked with him on that method, and, as a member of his Cabinet, I can only take that position.

Senator BAILEY. Is it your judgment that if we increase the national debt with bond issues, and with contingent liabilities, and so forth, beyond the budget, we are likely to destroy the financial structure, or seriously impair it?

Mr. MORGENTHAU. I simply feel that this Budget message went up in January. It is now the end of April. The public accepted it as the President's word. We have gone ahead and done our refunding on that basis, people have bought Government bonds on that basis, and while I realize that the President can only send his message and the final authority rests with Congress, still I feel that he and I both are definitely committed to his Budget methods.

Senator BAILEY. Let me call your attention to some very impressive words here from your statement:

Moreover, the credit of the United States Government depends very largely, in my opinion, upon scrupulous adherence to the President's program.

Scrupulous adherence—that means absolute, does it not?

Mr. MORGENTHAU. I wrote it, and I do not say something I do not believe.

Senator BAILEY. That was the strongest word you could use was it not?

Mr. MORGENTHAU. I think so.

Senator BAILEY. You say further:

I don't think we can continue to enjoy the present favorable rates and favorable market for the sale of Government securities if new expenditures are incurred which go far beyond the limits of those which have already been outlined. A material decline in the market price of Government securities, which would be very likely to result from large expenditures outside the budget, would work a grave injustice upon all purchasers of Government securities, and would tend to slow up the whole recovery program.

That is your considered opinion, given to us?

Mr. MORGENTHAU. Freely.

Senator CLARK. Mr. Secretary, the necessity for additional revenue would exist if Congress were to pass the Harrison bill as if it passed the Vinson bill or the Patman bill?

Mr. MORGENTHAU. If you do not mind, Senator, I would rather not get into the different bills.

Senator CLARK (interrupting). I understand, but if I understood your statement a moment ago, your position is that the passage of any of these bonus bills would require additional revenue?

Mr. MORGENTHAU. That is correct.

Senator GORE. Your statement is that expenditures or disbursements ought to bear some sort of relationship to income and revenue?

Mr. MORGENTHAU. Yes, sir.

The CHAIRMAN. Thank you, Mr. Secretary.
General Hines.

STATEMENT OF GEN. FRANK T. HINES, ADMINISTRATOR OF VETERANS' AFFAIRS, VETERANS' ADMINISTRATION

The CHAIRMAN. You know what is before us, General Hines. Will you please make your statement?

General HINES. Mr. Chairman and gentlemen of the committee, in appearing before you this morning, I believe that my testimony can be probably of greater value to you by giving to the committee information on these various bills and referring briefly to the past history which has been taken up somewhat by Colonel Taylor and preceding witnesses.

Senator KING. Before you do that, General, I should be very glad if you could have someone in your office, before these hearings are closed, submit to the secretary of the committee a statement showing all of the money that has been paid to the veterans since the war.

General HINES. I will refer to that as I go along.

Twelve bills have been introduced in the Senate and 37 in the House.

Senator CONNALLY. There are 435 Members of the House, are there not?

General HINES. Correct. [Laughter.]

To review the bonus just briefly, you will all recall that at the conclusion of the period of hostilities of the World War, the problem presented itself of the demobilization of those members of the military forces whose services of a temporary character were intended to embrace only the period of duration of the war. At the time of separation from the service only a few found themselves with any appreciable amount of readily available funds which could be used to defray expenses incident to the transition from a military to a civil status. In order to meet the situation the Congress enacted on February 24, 1919, a bill which provided that at the time of discharge an additional payment in the amount of \$60 would be made to persons serving in the military or naval forces during the war, who were separated from active duty under honorable conditions.

Senator BAILEY. General, I wish very much to hear you, and I feel that I should apologize, but I have an amendment pending in the Senate and I must go over, but I shall be very sure to read what you have to say.

General HINES. During the year 1919 it would appear that several more proposals were made for the granting of a consideration to persons who had served in the military or naval forces during the then recent conflict. Many and various types of plans were suggested, the principal ones being: (1) cash bonus; (2) home and farm aid; (3) land settlement aid; (4) vocational training aid; (5) issuance of service bonds. Later, a suggestion for the issuance of a paid-up insurance policy seems to have come into prominence.

and to have gained favor. A bill was finally passed in 1922 providing for the following different types of optional settlements which persons entitled were allowed to elect:

1. Adjusted-service pay; but the veteran could not choose this plan if the amount of adjusted-service settlement would exceed \$50.
2. Paid-up endowment insurance.
3. Vocational training aid.
4. Farm or home aid.

This proposed statute did not become a law because the President, under date of September 19, 1922, vetoed the act of the Congress and such veto was sustained.

In 1924 there passed both Houses of the Congress a bill which had as its object the issuance to World War veterans as adjusted compensation certain payments of cash to a restricted group and the issuance of adjusted-service certificates in the form of paid-up 20-year endowment-insurance policies to those persons otherwise meeting the requirements of eligibility. The veto of the President of this act of the Congress was not sustained and the law was placed upon the statute books May 19, 1924. Provision was made for the granting to persons serving in the military or naval forces, within a delimited period, of adjusted compensation at the rate of \$1 per day for services in the United States and \$1.25 per day for services overseas. Sixty days of service were excluded for the purpose of computing the amount of adjusted compensation, as was also service in a grade above that of captain in the Army or Marine Corps and lieutenant, senior grade, in the Navy. Entitlement was not acquired by service in certain specified organizational units nor under prescribed conditions stated in the act. For a service credit of \$50 or less payment was made in cash, but if the service credit exceeded \$50 an adjusted-service certificate was issued. A restricted class of surviving dependents of eligible veterans were privileged to receive benefits. If the amount of the credit was \$50 or less a lump sum cash settlement was authorized. If the credit exceeded \$50 payments were made in 10 equal quarterly installments. The amount of the adjusted-service certificate was determined by taking the net service credit and adding thereto 25 percent and the figure thus arrived at was used as a net single premium according to the American Experience Table of Mortality with interest at the rate of 4 percent, compounded annually, to procure for the veteran a paid-up 20-year endowment policy of insurance.

The amount of insurance procurable by a fixed credit varied according to the age of the insured at the time of issuance, but in the average case the amount stated on the face of the adjusted-service certificate represents approximately two and one-half times the net credit as computed by allowing the adjustment of \$1 and \$1.25 per day, based upon the field of service.

The CHAIRMAN. What was that average? The basis?

General HINES. The average was approximately \$400.

Senator CONNALLY. In other words, if the soldiers had been paid as of 1918, they would have gotten only 40 percent of their present face value of the certificates?

General HINES. We calculate if they had paid them in 1924 the total amount of cash—

OFFICE CORRESPONDENCE

Date April 22, 1935To Mr. KnokeSubject Silver Price and the Stabili-
zation of Sterling.From H. D. Starr

The argument that a rise in the silver price to around \$1.25 an ounce would raise the intrinsic value of the rupee above its monetary value and hence precipitate a monetary crisis in India is mathematically correct. The conclusion that in such a crisis "the only course open to Great Britain would be the raising of the gold value of the pound sterling"* is, it seems to me, quite mistaken. The author of the proposal states that there are three ways in which the British authorities might deal with the problem:

First, by raising the rate at which the rupee is pegged to sterling. This he rejects as a possibility, since it would be ruinous to India's foreign trade.

Comment: As a price of \$1.25 an ounce for silver would (at current £-\$ exchange **) require the raising of the rupee-sterling rate from 18 pence to 21.3 pence at a time when certain circles in India are agitating for a depreciated rupee, the rejection of such a proposal as a practical measure to save rupee coin from the melting pot can not be disputed.

Second, the reduction of the silver content of the rupee is rejected by the author as a possible means of combating the rising price of silver because it was once "considered and rejected."

Comment: There are certainly serious objections to such a measure, the chief of which is that such action would not of itself save the silver coin in circulation—from the melting pot. Reducing the silver content of the rupee would, however, preserve the silver reserves of the Reserve Bank of India and the Indian Government, which might otherwise be seriously depleted by the presentation of notes for conversion into coin for melting. If, without altering its gross weight, the fineness of the rupee were reduced from

*Quoted from the article by F. E. Holsinger in the New York Times of April 21, 1935.

** i.e. \$4.85.

—Estimates of which vary from 500 to 1,000 million ounces; around 600 million ounces is probably a fair estimate. The total amount of whole rupees coined in India since 1835 is equivalent to 2,220 million ounces.

.916 2/3 to .500* (as in Great Britain), the silver reserves of the Reserve Bank and the Government would be sufficient to cover the note issue by about 95%, instead of about 50% as at present. There would be no demand for the conversion of notes into rupees, because the melting point of the new coin would be a silver price equivalent to about \$1.90 an ounce. The new coin, despite being virtually fiat currency (just as the present coin is now), would circulate at its face value since it would (as at present) enjoy the status of unlimited legal tender.

Third, raising the gold value of the £ sterling, which the author accepts as the only remaining, and hence the necessary, choice of the British authorities.

Comment: While the proposal appears logical, it presupposes an extraordinarily naive on the part of the British authorities. For if the price of silver were to be raised to \$1.29** an ounce, the £-\$ rate would have to be \$5.93 to keep Indian coin out of the melting pot (assuming the rupee remained pegged at 18 pence.) What British Government would consent to stabilization at any such rate? And why should any British Government be coerced into stabilizing at any lower rate when such stabilization would not remove the threat to Indian coinage?* The United States Government, on the other hand, is in no position to guarantee that if the pound were stabilized at, say, \$5.00, the price of silver would not be permitted to exceed the then theoretical melting point of the rupee (\$1.09). Even if the U.S. Government were willing to bind itself to such an agreement, it could not be certain that the "market" would not push the silver price above the agreed level, for it could not sell Treasury silver to combat such a rise without Congressional authority.

One course open to the British authorities to which the author of the proposal gives no consideration is the placing of a duty or even an embargo on silver exports from India. While such a measure might be difficult to make wholly effective, it would at least retard the outflow of silver; coupled with a reduction in the silver content of the rupee, it might go far towards solving India's coinage problem. In any event, some such measure, which might not completely prevent the melting of rupee coin, would undoubtedly be more acceptable to Great Britain than stabilization of sterling at a rate dictated by the United States.

*By the London Silver Agreement (July 1933) the Indian Government undertook to "refrain from new legislative measures which would in-

volve further debasement of their coinage below a fineness of 800/1000;" subject, however, to the general exception that "Governments may take any action relative to their silver coinage that they may deem necessary to prevent the flight or destruction of their silver coinage by reason of a rise in the bullion price of the silver content of their coin above the nominal or parity value of such silver coin."

**The limit at present established by the Silver Purchase Act of 1934.

*With the pound at \$5.00 the rupee melting point is \$1.09; and at \$5.50 it is \$1.20.

April 22, 1935.
Monday.

256A

H.M.Jr: Hello.

Conboy: Hello.

H.M.Jr: Mr. Conboy?

C: Yes, sir.

H.M.Jr: Henry Morgenthau, Jr.

C: How do you do, sir?

H.M.Jr: How are you? I would like to put Mr. Oliphant on the telephone here because he wants to tell you about this Customs case, which I personally have been interested in for a year.

C: What's that?

H.M.Jr: A Customs case -

C: Yes.

H.M.Jr: - and the thing has just broken and I personally have been following it for about a year, and I would greatly appreciate it if you could yourself take a little personal interest in it. It's very important for us and has great ramifications, and if I felt that you personally were interested, then I could stop worrying about it.

C: Well, I'll do anything I can.

H.M.Jr: Well, now, Mr. Oliphant will explain it. We've got two phones at the desk and he'll talk to you.

C: All right.

Oliphant: Now, your man Mahoney of course, has been working along with the boys - with Mr. Manning and Mr. Klaus - has been working on the case and been very helpful.

C: Yes.

O: The thing has broken very rapidly in the last two or three days. Saturday night at seven o'clock this man Mullen, who was in the appraiser's store - he broke down and confessed taking \$75,000 in bribes over the last two years from Goldberg, and then -

C: That's Mullen - Mullen confessed that?

O: Yes.

C: Now, look here, just a minute. Suppose you get me on

April 22, 1938.
Sunday.

0: Cortland 77296.

0: How's that?

0: Get me on Cortland 7 - this is Oliphant, isn't it?

0: Yes.

0: Call me on Cortland 77296.

0: 77 - call you back?

0: Yes, on Cortland 77296.

0: All right.

0: Goldberg, Goldberg, Inc., Sollen was mad.

0: And Huseyer, another was there in Customs.

0: Another was in the Customs House.

0: That's right.

0: Yes.

0: Now, the boys called me back and said they wanted to arrest this afternoon, and I asked them if they had had an opportunity to discuss it with you and they said they hadn't and seemed to be desirable that you check over with them to be sure the thing to be arranged the way you want it before they take their arrest.

0: All right.

0: And then, of course, the newspaper man will be around, and it occurred to us that when the arrests were made a statement had to be made that you'd call the newspaper man in and tell them about it.

0: Well, I don't - I never tell them anything.

0: You don't?

0: No, I - I tell them and that's all we have to say.

0: Well, you can say that -

April 22, 1935.
Monday.

256 C

- Conboy: Hello. This is a private wire; you'd better take - keep this number so that when you want to call - it's better to call me on this phone.
- Oliphant: That's 77 -
- C: Cortland 77296.
- O: Yes.
- C: All right -
- O: Now, that was our man Mullen who was in the appraiser's store. He confessed Saturday night taking \$75,000 in bribes over the last two years from Goldberg, having been paid by Goldberg's employee, Riley. Then Riley came in this morning and he broke down and confessed to having paid the money to Mullen, and the boys had the two of them before the grand jury this morning, and the grand jury voted indictment of Goldberg, Goldberg, Inc., that's his firm, Mullen and that man Homeyer.
- C: Goldberg, Goldberg, Inc., Mullen and who?
- O: And Homeyer, another man there in Customs.
- C: Another man in the Customs House.
- O: That's right.
- C: Yes.
- O: Now, the boys called me back and said they wanted to arrest this afternoon, and I asked them if they had had an opportunity to discuss it with you and they said they hadn't and seemed to be desirable that you check over with them to be sure the thing is in shipshape the way you want it before they make their arrest.
- C: All right.
- O: And then, of course, the newspaper men will be around, and it occurred to us that when the arrests were made a statement had to be made that you'd call the newspaper men in and tell them about it.
- C: Well, I don't - I never tell them anything.
- O: You don't?
- O: No, I - I tell them and that's all we have to say.
- O: Well, you can say that -

C: We never make any statements here of any character.

O: Well, then you can turn them down.

C: Yes, I'll - I'll - they're used to it by this time.

O: Yes, you can turn them down.

C: Yes.

O: Well, I'll - I'll call Manning and - can he come right down and see you now?

C: Sure.

O: They wanted to arrest this afternoon.

C: All right, tell them to come right along.

O: All right, very much obliged to you.

[Faint, mostly illegible text follows, appearing to be a continuation of a conversation or a list of notes.]

April 22, 1935.
Monday.

256 E

Crane: Personal matter, no business.

H.M.Jr: Yes.

Crane: Governor told you about my leaving?

H.M.Jr: Yes, I'm - I'm awfully sorry to hear it.

C: Well, I - I'm sorry to go myself, but I just wanted to tell how much I've enjoyed my contact with you.

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

C: And if I can ever do anything, I hope you'll let me know.

H.M.Jr: Well, that goes both ways.

C: Fine.

H.M.Jr: And - when do you think you're going to go?

C: Oh, I don't know yet.

H.M.Jr: Well, you don't have to make it too soon, do you?

C: I don't know, Mr. Higgins was just in and they're very anxious to get me, but I really haven't come to any definite decision with the Governor yet.

H.M.Jr: What is it, a matter of a couple of weeks?

C: Oh, yes, I think so.

H.M.Jr: Yes.

C: Yes.

H.M.Jr: Well, you've done a grand job for us.

C: Well, I've enjoyed every minute of it.

H.M.Jr: And I - I don't know - I'm only sorry - and I hope to see you before you make the change .

C: Well, I have enjoyed it very much and I hate to leave, but it seems like a good opportunity, and I've been in the bank twenty years and I think maybe I need a little dusting off.

H.M.Jr: Twenty years!

C: Yes.

H.M.Jr: I had no idea; you don't look old enough for that.

C: I've never had any business experience outside of the bank.

H.M.Jr: Is that right?

C: No, and I-

H.M.Jr: Well, the Governor said that you have - look forward to being Treasurer of Standard Oil.

C: Well, that - it's not definite, but Mr. Higgins says that if everything works out all right, that's what he's planning on.

H.M.Jr: Well, that's worth shooting for, isn't it?

C: Yes, I think so. All right -

H.M.Jr: Well, I appreciate your calling me.

C: All right, sir.

H.M.Jr: All right.

C: Goodbye.

H.M.Jr: Yes, that's it. He's awfully well qualified for that work, - of course, you probably know his qualifications.

H.M.Jr: What did the President say?

H.M.Jr: Well, he thought it was fine.

H.M.Jr: He did?

H.M.Jr: I felt very much encouraged about asking him.

H.M.Jr: Well, I'll speak to him about it today. I don't think any decision has been reached.

H.M.Jr: I see.

H.M.Jr: Well, I'll be glad to talk to him about it.

H.M.Jr: That'll be fine. I thank you very much.

H.M.Jr: Thank you.

H.M.Jr: I - I'm sure his qualifications - he's looked into them - and he's pleased for that work.

H.M.Jr: Yes.

H.M.Jr: And a Republican

H.M.Jr: We have to have a Republican.

April 22, 1935.
Monday.

2566

H.M.Jr: Hello.

McNary: Mr. Secretary?

H.M.Jr: Yes, Senator McNary.

McN: I hate to bother you.

H.M.Jr: You can't bother me.

McN: I - I'm very much interested as most of - all Republicans are in Senator Goldsborough of Maryland.

H.M.Jr: Oh, yes.

McN: He, I think - I was down to talk to the President a few days ago and he was very nice to me about it. I think he has the assurance, but I know, spoke in behalf of all the Republicans and Senate and I think he has indorsements of the National Committeemen and Democratic National Committeemen and two Senators. I just want to say we're awfully much interested.

H.M.Jr: For the Federal Deposit Insurance?

McN: Yes, that's it. He's awfully well qualified for that work, -of course, you probably know his qualifications.

H.M.Jr: What did the President say?

McN: Well, he thought it was fine.

H.M.Jr: He did?

McN: I felt very much encouraged about asking him.

H.M.Jr: Well, I'll speak to him about it today. I don't think any decision has been reached.

McN: I see.

H.M.Jr: Well, I'll be glad to talk to him about it.

McN: That'll be fine. I thank you very much.

H.M.Jr: Thank you.

McN: I - I'm sure his qualifications - we looked into them - are splendid for that work.

H.M.Jr: Yes.

McN: And a Republican

H.M.Jr: We have to have a Republican.

McN: You think - he's a mighty fine gentleman - unusual type.

H.M.Jr: Yes, I think he's a fine gentleman.

McN: Yes.

H.M.Jr: Well, I appreciate your calling me.

McN: Thank you very much, Mr. Secretary.

H.M.Jr: Goodbye.

McN: Goodbye.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, April 22, 1935.
4-20-35.

Press Service
No. 4-81

Secretary of the Treasury Morgenthau today announced the offering of additional issues of 20-25 year 2-7/8 per cent Treasury bonds of 1955-60 and of 5 year 1-5/8 per cent Treasury notes of Series A-1940, both in exchange for First Liberty Loan bonds of any series called for redemption on June 15, 1935. Each issue will be limited to the amount of First Liberty Loan bonds tendered and accepted in payment, and cash subscriptions will not be received.

About \$1,933,000,000 of the First Liberty Loan bonds are now outstanding, as follows: \$1,392,226,250 of the original First 3-1/2's, \$5,002,450 of the First Converted 4's, \$532,489,100 of the First Converted 4-1/4's and \$3,492,150 of the First-Second Converted 4-1/4's - all of which are called for redemption on June 15, 1935, and are now exchangeable, at the option of holders, either for the 20-25 year Treasury bonds or for the 5 year Treasury notes.

The Treasury bonds now offered in exchange will be an addition to and will form a part of the series of 2-7/8 per cent Treasury bonds of 1955-60 issued pursuant to Department Circular No. 531, dated March 4, 1935. They are identical in all respects with such bonds, with which they will be freely interchangeable. The bonds are dated March 15, 1935, and bear interest from that date at the rate of 2-7/8 per cent per annum payable semi-annually. They will mature March 15, 1960, but may be redeemed at the option of the United States on and after March 15, 1955.

The Treasury notes also offered in exchange will be an addition to and will form a part of Series A-1940 of 1-5/8 per cent Treasury notes issued pursuant to Department Circular No. 532, dated March 4, 1935. They are identical in all

respects with such notes, with which they will be freely interchangeable. The notes are dated March 15, 1935, and bear interest from that date at the rate of $1\frac{5}{8}$ per cent per annum, payable semi-annually. They will mature March 15, 1940, and will not be subject to call for redemption prior to that date.

The bonds and notes of this additional offering will carry the same tax exemptions as the bonds and notes of the same series of which they will form a part.

The Treasury bonds will be issued in two forms, bearer bonds with interest coupons attached, and bonds registered both as to principal and interest; both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The Treasury notes will be issued in the same denominations but only in bearer form with coupons attached.

First Liberty Loan bonds of any series will be received on exchange at par, and both the $2\frac{7}{8}$ per cent Treasury bonds of 1955-60 and the $1\frac{5}{8}$ per cent Treasury notes of Series A-1940 will be issued at par, with the right reserved by the Secretary of the Treasury to increase the issue price of either the bonds or the notes, or both, by public announcement effective as to subscriptions tendered after the time fixed by the Secretary, which time will be after the date of the announcement and in no event earlier than April 29, 1935. On all exchanges, interest adjustments will be made as of June 15, 1935. The subscriber will be credited with interest for the full six months' period ending June 15, on First Liberty Loan bonds tendered in exchange, and will be charged with accrued interest from March 15 to June 15 on the $2\frac{7}{8}$ per cent Treasury bonds or the $1\frac{5}{8}$ per cent Treasury notes issued on exchange. The difference (less any premium by reason of an increase in the issue price) will be paid to subscribers following acceptance of First Liberty Loan bonds on exchange.

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

Applications for Treasury bonds of 1955-60 or Treasury notes of Series A-1940 should be accompanied by a like face amount of First Liberty Loan bonds tendered in payment. Coupon bonds so tendered should have the June 15, 1935, and all subsequent coupons attached, and registered bonds should be assigned as provided in the official circulars. Subject to the reservations set forth in the official circulars, all exchange subscriptions for Treasury bonds and Treasury notes in payment of which First Liberty Loan bonds are tendered, will be allotted in full.

The present offerings of 2-7/8 per cent Treasury bonds of 1955-60 and of 1-5/8 per cent Treasury notes of Series A-1940, afford the holders of First Liberty Loan bonds called for redemption on June 15, 1935, an opportunity to exchange their called bonds either for other long term bonds of the United States, or for shorter term Treasury notes, with interest adjustments as of June 15, 1935, the date the First Liberty Loan bonds cease to bear interest. The holders of the called bonds who wish to take advantage of either exchange offering, should act promptly. No further exchange offering will be made to the holders of the called First Liberty Loan bonds, and if such bonds are not exchanged at this time, they should be presented for redemption on June 15, 1935, in accordance with the provisions of Department Circular No. 535, dated April 22, 1935.

The texts of the official circulars for the exchange offerings follow:

UNITED STATES OF AMERICA

2-7/8 PERCENT TREASURY BONDS OF 1955-60

Dated and bearing interest from March 15, 1935

Due March 15, 1960

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND
AFTER MARCH 15, 1955

Interest payable March 15 and September 15

ADDITIONAL ISSUE

OFFERED ONLY IN EXCHANGE FOR FIRST LIBERTY LOAN BONDS CALLED
FOR REDEMPTION ON JUNE 15, 1935

1935
Department Circular No. 536

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, April 22, 1935.

Public Debt Service

I. EXCHANGE OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, for refunding purposes, invites subscriptions from the people of the United States for 2-7/8 percent bonds of the United States, designated Treasury Bonds of 1955-60, in payment of which only First Liberty Loan bonds, of any series, called for redemption on June 15, 1935, may be tendered. The amount of the additional issue of 2-7/8 percent Treasury Bonds of 1955-60 under this circular will be limited to the amount of First Liberty Loan bonds tendered and accepted.

2. First Liberty Loan bonds will be received on exchange at par, and 2-7/8 percent Treasury Bonds of 1955-60 will be issued at par, with the right reserved by the Secretary of the Treasury to increase the issue price by public announcement effective as to subscriptions tendered after the time, not earlier than April 29, 1935, fixed in the announcement. On all exchanges, interest adjustments will be made as of June 15, 1935.

3. The outstanding bonds of the First Liberty Loan called for redemption on June 15, 1935, and which, under the terms of this circular, may be exchanged for 2-7/8 percent Treasury Bonds of 1955-60, follow:

3-1/2 percent bonds of 1932-47 (First 3-1/2's) dated June 15, 1917
Converted 4 percent bonds of 1932-47 (First 4's) dated November 15, 1917
Converted 4-1/4 percent bonds of 1932-47 (First 4-1/4's) dated May 9, 1918
Second Converted 4-1/4 percent bonds of 1932-47 (First-Second 4-1/4's)
dated October 24, 1918

4. In addition to the exchange offering under this circular, holders of First Liberty Loan bonds are offered the privilege of exchanging all or any part of such

called bonds for 5-year 1-5/8 percent Treasury Notes of Series A-1940, which offering is set forth in Department Circular No. 537, issued simultaneously with this circular.

II. DESCRIPTION OF BONDS

1. The bonds now offered will be an addition to and will form a part of the series of 2-7/8 percent Treasury Bonds of 1955-60 issued pursuant to Department Circular No. 531, dated March 4, 1935, are identical in all respects therewith, will be freely interchangeable, and are described in the following quotation from said Circular No. 531:

"The bonds will be dated March 15, 1935, and will bear interest from that date at the rate of two and seven-eighths percent per annum, payable semiannually, on September 15, 1935, and thereafter on March 15 and September 15 in each year until the principal amount becomes payable. They will mature March 15, 1960, but may be redeemed at the option of the United States on and after March 15, 1955, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

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

"The bonds will be acceptable to secure deposits of public moneys, and will bear the circulation privilege only to the extent provided in the act approved July 22, 1932, as amended. They will not be entitled to any privilege of conversion.

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

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

III. SUBSCRIPTION AND ALLOTMENT

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

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

IV. TERMS OF PAYMENT AND ISSUE

1. Treasury bonds offered under this circular will be issued at par, or at such increased issue price as may be fixed by public announcement in the case of bonds issued upon subscriptions tendered to a Federal Reserve bank or branch or to the Treasury Department after the time stated in the announcement. The effective time for any increase which may be made in the issue price will be after the date of the announcement and in no event earlier than April 29, 1935. Any such announcement fixing an increase in the issue price and the time when such increase becomes effective will be communicated promptly to the Federal Reserve banks. Payment for any bonds allotted under this circular may be made only in First Liberty Loan bonds of any series, which will be accepted at par, provided that payment of the premium by reason of any increase in the issue price shall be made as provided in the next following paragraph. The bonds tendered in payment should accompany the subscription.

2. Interest adjustment as of June 15, 1935. - Subscribers will be credited with interest in full to June 15, 1935, on First Liberty Loan bonds tendered in exchange, and will be charged with accrued interest from March 15 to June 15, 1935, (\$7.1875 per \$1,000), on 2-7/8 percent Treasury Bonds of 1955-60 issued on exchange. The net interest adjustment per \$1,000 principal amount on account of the various issues of First Liberty Loan bonds follows: First 3-1/2's - \$10.3125; First 4's - \$12.8125; First 4-1/4's and First-Second 4-1/4's - \$14.0625. This net interest adjustment (less any premium by reason of an increase in the issue price) will be paid to subscribers following acceptance of First Liberty Loan bonds under this circular.

V. SURRENDER OF FIRST LIBERTY LOAN BONDS ON EXCHANGE

1. Coupon Bonds. - First Liberty Loan bonds in coupon form tendered in exchange for Treasury bonds offered hereunder, should be presented and surrendered with the subscription to a Federal Reserve bank or to the Treasurer of the United States. Coupons dated June 15, 1935, and all coupons bearing dates subsequent to

June 15, 1935, should be attached to such coupon bonds when surrendered, and if any such coupons are missing, the subscription must be accompanied by cash payment equal to the face amount of the missing coupons.¹ The bonds must be delivered at the expense and risk of the holder. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal Reserve banks, and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents. Incorporated banks and trust companies are not agents of the United States under this circular.

2. Registered Bonds. - First Liberty Loan bonds in registered form tendered in exchange for Treasury bonds offered hereunder should be assigned by the registered payee or the assignee thereof, in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange, in one of the forms hereafter set forth, and thereafter should be presented and surrendered with the subscription to a Federal Reserve bank or to the Treasury Department, Division of Loans and Currency, Washington, D. C. The bonds must be delivered at the expense and risk of the holder. If Treasury bonds are desired registered in the same name as the First Liberty Loan bonds surrendered, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Bonds of 1955-60"; if Treasury bonds are desired registered in another name, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Bonds of 1955-60 in the name of _____"; if Treasury bonds in coupon form are desired, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Bonds of 1955-60 in coupon form to be delivered to _____".

VI. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury

¹
The final coupons attached to temporary coupon bonds of the First Liberty Loan became due as follows: First 4's - December 15, 1919; First 4-1/4's - June 15, 1920; First-Second 4-1/4's - December 15, 1920. The holders of any such temporary bonds will receive the past due interest to June 15, 1935, if such bonds are tendered for exchange under this circular.

UNITED STATES OF AMERICA

1-5/8 PERCENT TREASURY NOTES OF SERIES A-1940

Dated and bearing interest from March 15, 1935

Due March 15, 1940

Interest payable March 15 and September 15

ADDITIONAL ISSUE

OFFERED ONLY IN EXCHANGE FOR FIRST LIBERTY LOAN BONDS
CALLED FOR REDEMPTION ON JUNE 15, 1935

1935
Department Circular No. 537

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, April 22, 1935.

Public Debt Service

I. EXCHANGE OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions from the people of the United States for 1-5/8 percent Treasury notes of the United States, designated Treasury Notes of Series A-1940, in payment of which only First Liberty Loan bonds, of any series, called for redemption on June 15, 1935, may be tendered. The amount of the additional issue of 1-5/8 percent Treasury Notes of Series A-1940 under this circular will be limited to the amount of First Liberty Loan bonds tendered and accepted.

2. First Liberty Loan bonds will be received on exchange at par, and 1-5/8 percent Treasury Notes of Series A-1940 will be issued at par, with the right reserved by the Secretary of the Treasury to increase the issue price by public announcement effective as to subscriptions tendered after the time, not earlier than April 29, 1935, fixed in the announcement. On all exchanges, interest adjustments will be made as of June 15, 1935.

3. The outstanding bonds of the First Liberty Loan called for redemption on June 15, 1935, and which, under the terms of this circular, may be exchanged for 1-5/8 percent Treasury Notes of Series A-1940, follow:

3-1/2 percent bonds of 1932-47 (First 3-1/2's) dated June 15, 1917
Converted 4 percent bonds of 1932-47 (First 4's) dated November 15, 1917
Converted 4-1/4 percent bonds of 1932-47 (First 4-1/4's) dated May 9, 1918
Second Converted 4-1/4 percent bonds of 1932-47 (First-Second 4-1/4's)
dated October 24, 1918

4. In addition to the exchange offering under this circular, holders of First Liberty Loan bonds are offered the privilege of exchanging all or any part of such called bonds for 2-7/8 percent Treasury Bonds of 1955-60, which offering is set forth in Department Circular No. 536, issued simultaneously with this circular.

II. DESCRIPTION OF NOTES

1. The notes now offered will be an addition to and will form a part of the series of 1-5/8 percent Treasury Notes of Series A-1940, issued pursuant to Department Circular No. 532, dated March 4, 1935, are identical in all respects therewith (except that the additional denomination of \$50 will be made available), will be freely interchangeable, and are described in the following quotation from said Circular No. 532:

"The notes will be dated March 15, 1935, and will bear interest from that date at the rate of one and five-eighths percent per annum, payable semiannually, on September 15, 1935, and thereafter on March 15 and September 15 in each year. They will mature March 15, 1940, and will not be subject to call for redemption prior to maturity.

"The notes shall 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 notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

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

2. Bearer notes with interest coupons attached will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

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

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

IV. TERMS OF PAYMENT AND ISSUE

1. Treasury notes offered under this circular will be issued at par, or at such increased issue price as may be fixed by public announcement in the case of notes issued upon subscriptions tendered to a Federal Reserve bank or branch or to the Treasury Department after the time stated in the announcement. The effective time for any increase which may be made in the issue price will be after the date of the announcement and in no event earlier than April 29, 1935. Any such announcement fixing an increase in the issue price and the time when such increase becomes effective will be communicated promptly to the Federal Reserve banks. Payment for any notes allotted under this circular may be made only in First Liberty Loan bonds of any series, which will be accepted at par, provided that payment of the premium by reason of any increase in the issue price shall be made as provided in the next following paragraph. The bonds tendered in payment should accompany the subscription.

2. Interest adjustment as of June 15, 1935. - Subscribers will be credited with interest in full to June 15, 1935, on First Liberty Loan bonds tendered in exchange, and will be charged with accrued interest from March 15 to June 15, 1935 (\$4.0625 per \$1,000), on 1-5/8 percent Treasury Notes of Series A-1940 issued on exchange. The net interest adjustment per \$1,000 principal amount on account of the various issues of First Liberty Loan bonds follows: First 3-1/2's - \$13.4375; First 4's - \$15.9375; First 4-1/4's and First-Second 4-1/4's - \$17.1875. This net interest adjustment (less any premium by reason of an increase in the issue price) will be paid to subscribers following acceptance of First Liberty Loan bonds under this circular.

V. SURRENDER OF FIRST LIBERTY LOAN BONDS ON EXCHANGE

1. Coupon Bonds. - First Liberty Loan bonds in coupon form tendered in exchange for Treasury notes offered hereunder, should be presented and surrendered with the subscription to a Federal Reserve bank or to the Treasurer of the United States. Coupons dated June 15, 1935, and all coupons bearing dates subsequent to June 15, 1935, should be attached to such coupon bonds when surrendered, and if any such coupons are missing, the subscription must be accompanied by cash payment equal to the face amount of the missing coupons.¹ The bonds must be delivered at the expense and risk of the holder. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal Reserve banks, and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents. Incorporated banks and trust companies are not agents of the United States under this circular.

1

The final coupons attached to temporary coupon bonds of the First Liberty Loan became due as follows: First 4's - December 15, 1919; First 4-1/4's - June 15, 1920; First-Second 4-1/4's - December 15, 1920. The holders of any such temporary bonds will receive the past due interest to June 15, 1935, if such bonds are tendered for exchange under this circular.

2. Registered Bonds. - First Liberty Loan bonds in registered form tendered in exchange for Treasury notes offered hereunder should be assigned by the registered payee or the assignee thereof, in accordance with the general regulations of the Treasury Department governing assignments for transfer or exchange, to "The Secretary of the Treasury for exchange for Treasury Notes of Series A-1940", and thereafter should be presented and surrendered with the subscription to a Federal Reserve bank or to the Treasury Department, Division of Loans and Currency, Washington, D. C. If the Treasury notes are to be delivered for the account of other than the registered payee or the assignee thereof, the assignment should be to "The Secretary of the Treasury for exchange for Treasury Notes of Series A-1940 to be delivered to _____". The bonds must be delivered at the expense and risk of the holder.

VI. GENERAL PROVISIONS

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

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury

FOR RELEASE MORNING NEWSPAPERS, MONDAY, APRIL 22, 1935.

REDEMPTION OF FIRST LIBERTY LOAN BONDS

1935
Department Circular No. 535

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, April 22, 1935.

Public Debt Service

To Holders of First Liberty Loan Bonds of 1932-47, and Others Concerned:

I. NOTICE OF CALL FOR REDEMPTION BEFORE MATURITY

On March 14, 1935, the following public notice of call for redemption was given:

To Holders of First Liberty Loan Bonds of 1932-47, and Others Concerned:

Public notice is hereby given:

1. All outstanding First Liberty Loan bonds of 1932-47 are hereby called for redemption on June 15, 1935. The various issues of First Liberty Loan bonds (all of which are included in this call) are as follows:

First Liberty Loan 3-1/2 percent bonds of 1932-47 (First 3-1/2's), dated June 15, 1917;

First Liberty Loan Converted 4 percent bonds of 1932-47 (First 4's), dated November 15, 1917;

First Liberty Loan Converted 4-1/4 percent bonds of 1932-47 (First 4-1/4's), dated May 9, 1918; and

First Liberty Loan Second Converted 4-1/4 percent bonds of 1932-47 (First-Second 4-1/4's), dated October 24, 1918.

2. Interest on all such outstanding First Liberty Loan bonds will cease on said redemption date, June 15, 1935.

3. Full information regarding the presentation and surrender of First Liberty Loan bonds for redemption under this call will be given in a Treasury Department circular to be issued later.

4. Holders of First Liberty Loan bonds now called for redemption on June 15, 1935, may, in advance of that date, be offered the privilege of exchanging all or any part of their called bonds for other interest-bearing obligations of the United States, in which event public notice will hereafter be given.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Treasury Department,
Washington, March 14, 1935.

II. OPTIONAL EXCHANGE OFFERING.

1. Holders of First Liberty Loan bonds, called for redemption on June 15, 1935, are offered the privilege, for a limited period beginning April 22, 1935, of exchanging all or any part of their called bonds, either (1) for 2-7/8 percent Treasury Bonds of 1955-60, or (2) for 5-year 1-5/8 percent Treasury Notes of Series A-1940, both bonds and notes being dated and bearing interest from March 15, 1935.

2. Full information concerning the optional exchange offering of Treasury bonds is set forth in Treasury Department Circular No. 536, and full information concerning the optional exchange offering of Treasury notes is set forth in Treasury Department Circular No. 537, both circulars being dated April 22, 1935. As the privilege of exchanging First Liberty Loan bonds will be accorded for a limited period only and may be terminated at any time without notice, holders of First Liberty Loan bonds who desire to take advantage of either offering should act promptly, following the instructions given in the Treasury Department circulars referred to above, copies of which may be obtained from any Federal Reserve bank or branch, or from the Treasury Department, Washington, D.C.

III. RULES AND REGULATIONS GOVERNING REDEMPTION OF FIRST LIBERTY LOAN BONDS

Pursuant to the call for redemption, as set forth in Section I of this circular, the following rules and regulations are hereby prescribed to govern the presentation and surrender of First Liberty Loan bonds for redemption on June 15, 1935:

1. Payment of called bonds on June 15, 1935. - Holders of any outstanding First Liberty Loan bonds will be entitled to have such bonds redeemed and paid at par on June 15, 1935, with interest in full to that date. After June 15, 1935, interest will not accrue on any First Liberty Loan bonds.

2. Presentation and surrender of coupon bonds. - First Liberty Loan bonds in coupon form should be presented and surrendered to any Federal Reserve bank or branch, or to the Treasurer of the United States, Washington, D.C., for redemption on June 15, 1935. The bonds must be delivered at the expense and risk of holders (see par. 8 of this section) and should be accompanied by appropriate written advice (see Form P.D. 1435 attached hereto). Checks in payment of principal will be mailed to the address given in the form of advice accompanying the bonds surrendered.

3. Coupons dated June 15, 1935, which become payable on that date, should be detached from any First Liberty Loan bonds before such bonds are presented for redemption on June 15, 1935, and such coupons should be collected in regular course when due. All coupons pertaining to such bonds bearing dates subsequent to June 15, 1935, must be attached to any such bonds when presented for redemption, provided, however, if any such coupons are missing from bonds so presented for redemption the bonds nevertheless will be redeemed, but the full face amount of any such missing coupons will be deducted from the payment to be made on account of such redemption, and any amounts so deducted will be held in the Treasury

to provide for adjustments or refunds on account of such missing coupons as may subsequently be presented. 1

4. Presentation and surrender of registered bonds. - First Liberty Loan bonds in registered form must be assigned by the registered payee or assigns thereof, or by their duly constituted representatives, in accordance with the general regulations of the Treasury Department governing assignments, in the form indicated in the next paragraph hereof, and thereafter should be presented and surrendered to any Federal Reserve bank or branch, or to the Division of Loans and Currency, Treasury Department, Washington, D.C., for redemption on June 15, 1935. The bonds must be delivered at the expense and risk of holders (see par. 8 of this section) and should be accompanied by appropriate written advice (see Form P.D. 1436 attached hereto). In all cases checks in payment of principal and final interest due will be mailed to the address given in the form of advice accompanying the bonds surrendered.

5. If the registered payee, or an assignee holding under proper assignment from the registered payee, desires that payment of the principal and final installment of interest be made to him, the bonds should be assigned by such payee or assignee, or by a duly constituted representative, to "The Secretary of the Treasury for redemption". If it is desired, for any reason, that payment be made to some other person, without intermediate assignment, the bonds should be assigned to "The Secretary of the Treasury for redemption for the account of _____", inserting the name and address of the person to whom payment is to be made. A representative or fiduciary should not assign for payment to himself individually, unless expressly authorized to do so by the instrument under which he is acting; he may, however, assign for payment to himself in his representative or fiduciary capacity.

6. Assignment in blank or other assignment having similar effect, will be recognized, but in that event payment will be made to the person surrendering the bond for redemption, since under such assignment the bond becomes in effect payable to bearer. Assignments in blank or assignments having similar effect should be avoided, if possible, in order not to lose the protection afforded by registration.

7. Final interest due on June 15, 1935, on registered bonds of the First Liberty Loan will be paid with the principal in accordance with the assignments on the bonds surrendered. Transfers and exchanges involving registered bonds will be permitted up to the close of business on May 31, 1935, but not after that date.

8. Transportation of bonds. - Bonds presented for redemption under this circular must be delivered to a Federal Reserve bank or branch, or to the Treasury Department, Washington, D.C., at the expense and risk of the holder. Coupon bonds should be forwarded by registered mail insured, or by express

1 First 4's, First 4-1/4's, and First-Second 4-1/4's were originally issued in temporary form. The final coupon attached to such temporary bonds became due on December 15, 1919, June 15, 1920, and December 15, 1920, respectively. The holders of any such temporary bonds will receive all past due interest to June 15, 1935, when such bonds are redeemed pursuant to the call. Any coupons now attached to such temporary bonds should be detached and collected in regular course.

prepaid. Registered bonds bearing restricted assignments may be forwarded by registered mail, but registered bonds bearing unrestricted assignments should be forwarded by registered mail insured or by express. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal Reserve banks, and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents. Incorporated banks and trust companies are not agents of the United States under this circular.

IV. TIME OF PRESENTATION OF CALLED BONDS FOR REDEMPTION

1. In order to facilitate the redemption of First Liberty Loan bonds on June 15, 1935, any such bonds should be presented and surrendered in the manner herein prescribed well in advance of that date, but not before May 15, 1935. Such early presentation by holders will assure prompt payment of principal when due. This is particularly important with respect to registered bonds, for payment cannot be made until registration shall have been discharged at the Treasury Department.

2. It will expedite redemption if the bonds are presented to Federal Reserve banks, or branches, and not direct to the Treasury Department.

3. As hereinbefore provided: (1) coupons due June 15, 1935, should be detached from any permanent coupon bonds when such bonds are presented for redemption on that date, such coupons to be collected when due; and (2) final interest due on any registered bonds will be paid with the principal amount.

4. IF FIRST LIBERTY LOAN BONDS CALLED FOR REDEMPTION ON JUNE 15, 1935, ARE TO BE PRESENTED FOR EXCHANGE FOR 2-7/8 PERCENT TREASURY BONDS OF 1955-60, INSTRUCTIONS GIVEN IN TREASURY DEPARTMENT CIRCULAR NO. 536 SHOULD BE FOLLOWED; IF TO BE PRESENTED FOR 1-5/8 PERCENT TREASURY NOTES OF SERIES A-1940, INSTRUCTIONS GIVEN IN TREASURY DEPARTMENT CIRCULAR NO. 537 SHOULD BE FOLLOWED; IF TO BE PRESENTED FOR REDEMPTION ON JUNE 15, INSTRUCTIONS GIVEN IN THIS CIRCULAR SHOULD BE FOLLOWED.

V. GENERAL PROVISIONS

1. Any further information which may be desired regarding the redemption of First Liberty Loan bonds under this circular may be obtained from any Federal Reserve bank or branch, or from the Treasury Department, Washington, D.C., where copies of the Treasury Department's regulations governing assignments also may be obtained.

2. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to perform any necessary acts under this circular. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the matters covered by this circular, which will be communicated promptly to Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

FOR COUPON BONDS
(For registered bonds use Form PD 1436)

TREASURY DEPARTMENT
Public Debt Service
Form PD 1435

Use separate form for each issue

FORM OF ADVICE TO ACCOMPANY FIRST LIBERTY LOAN BONDS IN COUPON FORM PRESENTED
FOR REDEMPTION ON JUNE 15, 1935

To the Federal Reserve Bank of _____
or
Treasurer of the United States, Washington, D.C.

Pursuant to the provisions of Treasury Department Circular No. 535, dated April 22, 1935, the undersigned presents and surrenders herewith for redemption on June 15, 1935, \$ _____, face amount of First Liberty Loan bonds in coupon form, with coupon due December 15, 1935, and all subsequent coupons attached, as follows:

Title of issue: _____
(Use short title - see note)

Number of bonds	Denomination	Serial numbers of bonds	Face amount
-----	\$50	-----	\$-----
-----	100	-----	-----
-----	500	-----	-----
-----	1,000	-----	-----
-----	5,000	-----	-----
-----	10,000	-----	-----
-----	100,000	-----	-----
Total			\$-----

and requests that remittance covering payment therefor be forwarded to the undersigned at the address indicated below.

Signature _____

Name (please print) _____

Address in full _____

Date _____

Notes: The titles of the four issues of First Liberty Loan bonds follow:

Title	Short Title
First Liberty Loan $3\frac{1}{2}\%$ bonds of 1932-47	First $3\frac{1}{2}$'s
First Liberty Loan Converted 4% bonds of 1932-47	First 4's
First Liberty Loan Converted $4\frac{1}{2}\%$ bonds of 1932-47	First $4\frac{1}{2}$'s
First Liberty Loan Second-Converted $4\frac{1}{2}\%$ bonds of 1932-47	First-Second $4\frac{1}{2}$'s

FOR REGISTERED BONDS
(For coupon bonds use Form FD 1435)

TREASURY DEPARTMENT
Public Debt Service
Form PD 1436

Use separate form for each issue

FORM OF ADVICE TO ACCOMPANY FIRST LIBERTY LOAN BONDS IN REGISTERED FORM PRESENTED
FOR REDEMPTION ON JUNE 15, 1935

To the Federal Reserve Bank of _____,
or

Treasury Department, Division of Loans and Currency, Washington, D.C.:

Pursuant to the provisions of Treasury Department Circular No. 535, dated April 22, 1935, the undersigned presents and surrenders herewith for redemption on June 15, 1935, \$ _____, face amount of First Liberty Loan bonds in registered form, inscribed in the name of _____

_____ and duly assigned to "The Secretary of the Treasury for redemption", as follows:

Title of issue: _____
(Use short title - see note)

Number of bonds:	Denomination :	Serial numbers of bonds :	Face amount
_____	\$50	_____	\$ _____
_____	100	_____	_____
_____	500	_____	_____
_____	1,000	_____	_____
_____	5,000	_____	_____
_____	10,000	_____	_____
_____	50,000	_____	_____
_____	100,000	_____	_____
Total			\$ _____

and requests that remittance covering payment of principal and final interest be forwarded to the undersigned at the address indicated below.

Signature _____
Name (please print) _____
Address in full _____

Date _____

Note: The titles of the four issues of First Liberty Loan bonds follows:

Title	Short Title
First Liberty Loan $3\frac{1}{2}\%$ bonds of 1932-47	First $3\frac{1}{2}\%$'s
First Liberty Loan Converted 4% bonds of 1932-47	First 4% 's
First Liberty Loan Converted $4\frac{1}{2}\%$ bonds of 1932-47	First $4\frac{1}{2}\%$'s
First Liberty Loan Second-Converted $4\frac{1}{2}\%$ bonds of 1932-47	First-Second $4\frac{1}{2}\%$'s