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February 26

For a number of days various articles which I have been reading plus what has been happening in Congress plus the information that naturally comes across my desk has convinced me that the President is extremely vulnerable to attack on his spending program. Furthermore, the whole fiscal policy of the government is at the cross-roads depending upon how we are going to pay for the new agricultural program, the bonus, etc. The final straw was Dr. Gallup's article in the Sunday paper showing that only 2% of the people that he polled want new taxes.

On the way back from Williamsburg to-day I had a chance to do plenty of thinking and at 12 o'clock, when we went through Fredricksburg, I telephoned the White House for an appointment and got one for 5:15.

I called up Charlie Michaelson at 2 o'clock, when I reached Washington, and asked him if he did not think that one of the most important problems we had to face was the cost of running the government. He unhesitatingly said that it is the most important problem. I told him that I was going to see the President and he asked me to call him back on Monday and he would do everything he could to help me.

The President saw me immediately and I stayed with him a little over an hour - Miss LeHand being present serving us tea. He was fixing his stamps while I talked to him. I told him that I understood from Jake Viner that the Republicans were going to concentrate on attacking him on his spending program - just the way he had attacked Hoover. "But," I said, "the Republicans have ten times as much material now as you had three years ago; that they were going to defend the small business man and attack big business. Furthermore, that with the exception of the first six months that he was President all of the publicity that came out of the White House was "spending" and "more spending" and not a single word about economizing; that it was still time to talk and practice economy and that if he waited very much longer they would simply accuse him of doing it for the political effect. To my great surprise he sat there very quietly, nodded his head, smiled at me and said, "you are right". He never argued back at me once, except to say, "they have overlooked and misinterpreted what I said in my Message to Congress - that I pointed out that as business improved we would gradually curtail expenses". I said, "yes, that was very nice but you have done nothing about it". Again he said, "you are right".

I have never seen him so gentle or so receptive to suggestions.

The President then said, "what would you suggest doing?" I said, "well I, as Chairman of your Lending Committee, could call them together and possibly do something but that would not help you any. You have got to do it and let the word go out that you called a meeting in order to begin to save". He said, "whom should we call - Missy - take this down. I suggest that Jones, Fahey, Ickes, Myers and Stewart McDonald come". I then said, "what about Tugwell" and he said, "no, don't let's have Tugwell. He is in a sort of new business of lending to farm families in distress, and if we call him in it will start up a whole new line of thought and argument". I said, "fine, that will make the meeting that much easier" and he let me get away with that. The President also did not want Chester Davis.

Then, to my surprise, he said, "let's have another meeting on Thursday and talk over the 4 billion 8. I said, "frankly, I have been afraid to bring that up". He said, "why not?" Then I told him that I did not think we would spend more than 250 million dollars in January and this seemed to surprise him greatly and he said, "at that rate Hopkins will have enough to go until July 1st, although he has been telling me that he could not last after the 1st of May" (a Month ago Hopkins said he could not go until the 1st of April). The President said, "I would have gotten around to the 4 billion 8 long ago but I have been waiting for Bell to come back. I made inquiries and found out that Bell would not be back for a week". We both agreed that it was not necessary to wait for Bell. The President then said, "well whom should we have to that meeting" and I said, Ickes and Hopkins" to which the President replied, "Hopkins is away but that does not make any difference, we can have Williams in his place" and I said, "Tugwell" and I said, "how about the new man who is taking Walker's place at NEC" and he said, "by all means" and, he added, "yourself". Again I was almost speechless at the way he let me write the whole ticket.

I then said, "I have one more suggestion to make. I think you ought to get a national figure who is a good friend of yours in whom you have confidence and who believes in you and make him Director of the Budget so that the public will know that you are really interested in trying to economize." He agreed to that. We discussed various names but could not really arrive at any conclusion. I was very much amused at Miss LeHand seriously suggesting Bill Bullitt and the President said, quite curtly, "no, no, he is all wrapped up in international diplomacy and knows nothing about this" to which Miss LeHand answered, "but he would like to".

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The President then said, "if we begin to show that we want to save money, will it not make it more difficult for me to get through my tax bill to pay for the Bonus" and I said, "no doubt about it but maybe we can save enough so that we will not have to have any taxes to pay for the bonus and if you read Dr. Gallup to-day you will see how unpopular new taxes are". He said he had read Dr. Gallup.

If the President will really go through with this program and begin to talk and practice economy it may be the turning point in his whole hold on the people because there is no question that many many people are really worried about this spending program because they can see no end to it.

Senator James Byrnes

Monday  
February 3, 1936.

HM,Jr: Hello -

B: Yes

HM,Jr: Jimmy Byrnes?

B: Yes

HM,Jr: Henry Morgenthau -

B: Yes, Henry -

B: Yes, Henry -

HM,Jr: I've got in the office here, General Hines, Breining and the people from the Budget - everybody who might have anything to do with it. And the General talked to McCarl for about twenty minutes and when they got through - the impression of the people in the room here is that the position taken by the Bureau of the Budget is right and the position by McCarl is wrong. Now the only thing that we can do in a case like this is to refer to the Attorney General and try to get a quick ruling from him, you see?

B: Yes

HM,Jr: But McCarl and the General had it out here for about twenty or twenty-five minutes and when they got through - we think we're right. Now our boys think that the very - oh, some time within an hour or two they ought to be able to hope to get something out of the Attorney General. But they've been all over this thing and they think that the position Bell took is absolutely right. Now the only person that can settle it as far as the Treasury is concerned is the Attorney General.

B: Well, the only thing to do then is to print it. And if I - don't approve of that, Vic will include it in his subsequent bill - and so determined by him.

HM,Jr: Well, I - I - after all, the President sent that two billion three hundred million up and that was his estimate and -

B: I know, but we haven't got to give him all he asks for.

HM,Jr: No -

B: I mean - the - he's got the - he sends it up on figures and -

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- HM, Jr: He sends them up on figures based on -
- B: The best figures he can get -
- HM, Jr: The Bureau of the Budget
- B: And they determine whether - from the Budget  
and the -
- HM, Jr: I don't think McCarl as a matter of fact gets in on this  
thing as far as we're concerned.
- B: No - it seems that as long as  
because what we need isn't going to  
be any - there is going to be a row between the Con-  
gress and the President.
- HM, Jr: Well -
- B: Of course it won't -  
the Republicans will try to add it on and the Democrats  
will try to keep it off. And -
- HM, Jr: Well - you're being, as least you're being frank about  
it.
- B: What?
- HM, Jr: You're being very frank.
- B: Well, I say exactly what it is, they - because they  
want to - they want to add every cent that the President  
asks. And they say that what the President is doing  
I know that the President didn't. Newspaper fellows  
think the President did it and put the - in a hole the  
fellows who voted for the Bonus. I know that's not the  
President's attitude at all. But the Republicans be-  
lieving it, outside of Steiwer and the average fellow,  
they'd - they'd be disposed to go along and - but up  
till the - the others who determine whether they'll ap-  
propriate that amount of money now and they - so far  
as your attitude is concerned you could turn it down.  
The safest thing, it seems to me, is that if you don't  
want to turn the five hundred million over to the - to  
the Life Insurance Fund that you wouldn't - I mean  
that you wouldn't distribute to - wouldn't  
deliver them. That would be up to the - be-  
tween you and the Counsel and it would mean those boys  
wouldn't get their certificates. Then it would be up to  
the Congress to determine whether or not they would go

in a subsequent bill if the Attorney General should convince them that he was right and change the language of the Bill or appropriate the five hundred and seven million dollars.

HM, jr: Well -

B: But here's the question in my mind, what Hines wants to do is to build the damned appropriation up. If I'm any judge, I mean, that's what Breining wants to do, I know that, he just -

HM, Jr: No, no -

B: - would get every damned item in there. He's got - he's putting interest it would this morning and he wanted to make a hundred million dollars for - out of the two hundred and fifty-four, when it was only two million dollars in death claims a month!

HM, Jr: Yes

B: By God! he wanted forty million for death payments - that would be twenty months -

HM, Jr: Yes

B: And then these bonds - these bonds are distributed June the fifteenth enough for five months. And he wanted to put forty million, that's twenty times two.

HM, Jr: Yes

B: So that's - that's the reason I, well, I'm like him, I know what he wants to do. He wants to build this appropriation up and we want to build it down.

HM, Jr: . Yes, well, I (laughter) I don't want to get into a discussion, but the way - it looks to me as though the President will have to look to the Republicans to get the money he needs.

B: But - and he may get it, but he ain't going to look to us to get more than he needs.

HM, Jr: (Laughter)

B: Because he's been trying to hold him down in every other item and in this one -

HM, Jr: Yes

B: He'd be about right that he could hold him down. Now I'm not going to give Mr. Breining any twenty months death claims at two millions a month. Then these - these things - these bonds are to be issued June the fifteenth, they take the place of the Adjusted-Service Certificates that he estimated to be twenty months, at the first shot this morning.

HM, Jr: Well -

B: That's - that's how I judge his opinion on the matter. He's just - I have no doubt - perfectly sincere in believing that he could get an appropriation for every thing. He don't care about the political end at all. Neither does General Hines, but we do. That's our business, to look after the political Senators.

HM, Jr: Well, now -

B: He isn't - he isn't going to be out fighting it - fighting for it -

HM, Jr: No

B: And he won't be heard to say a damned word. These fellows who help will have to meet this thing and we want to make the Budget showing as good as possible.

HM, Jr: Well, now, Senator, if you don't mind, I'd like to report this conversation to the White House -

B: You can do it, but what I think you ought to do would be your own judgment about it because I'm still judicial about it -

HM, Jr: Yes

B: Is what you said at first, if you want to be guided by the Attorney General -

HM, Jr: Yes

B: Just take it up to the Attorney General. In the meantime, if we - I'll talk it over with these fellows and if we take the responsibility that we say we're not going to give it to him -

HM, Jr: Yes

B: or for it until - until we're convinced that it has to be done.

HM,Jr: Yes

B: That we're not just going to add an appropriation its original purpose to it except to build up in amount to pay some people who want to say we spend a lot of money.

HM,Jr: Yes, Well, I -

B: If he determines, though, that it should be done, or we become convinced, we can put it on another appropriation bill.

HM,Jr: Well, my position is that until the Attorney General tells me that the Bureau of the Budget is wrong I've got to stick to the Bureau of the Budget.

B: Good! You stick to the Bureau of the Budget and I'll say they're wrong (Laughter)

HM,Jr: - All right, Jimmy

B: Goodbye

February 3, 1936

Senator Byrnes called up and said they wanted to cut \$507,000,000 from the appropriation bill for the bonus. The total of that bill is \$2,237,000,000. The sum proposed to be cancelled is money which the veterans have borrowed from the insurance fund collateralized by the soldiers' service certificates. Byrnes said he had taken it up with McCarl, the Comptroller General, and that McCarl says it is not necessary to include the \$507,000,000 in the appropriation to pay the bonus.

After his conversation with Senator Byrnes, the Secretary immediately called in Fulloway from the Budget, Bartelt, McReynolds and Hester from the Treasury, and General Hines and Major Breining from the Veterans' Administration.

Bartelt and Fulloway both told the Secretary that McCarl was absolutely wrong and that the Budget Bureau was in complete disagreement with his opinion. HM, Jr. then called the Comptroller General and told him he had General Hines in his office and would like to put him on the 'phone and have him discuss with the Comptroller the technical aspects of the bill. The following is a report of their conversation.

HM, Jr: Hello

Operator: Mr. McCarl -

HM, Jr: Hello -  
Comptroller

McCarl: Hello, Mr. Secretary, how are you?

HM, Jr: I'm fine. How are you?

J. R.

McCarl: Well, pretty good -

HM, Jr: Well, I'm about the same. Senator Jimmy Byrnes just called me up about this appropriation bill to pay the bonus -

McC: Yes

HM, Jr: And he's very much disturbed about it and he said he had talked to you. And I have in the office here all of our people but Bell is away but General Hines is sitting across the desk. - And it's, as I understand it - the Bureau of the Budget takes one

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position and you take the other - that is, according to General - according to Jimmy Byrnes.

McC: Well, I didn't know what position the Bureau of the Budget had taken. But he just asked me what my view was and he's probably putting them together.

HM, Jr: Well, now, if you don't mind, I'd like to put General Hines on and let him talk to you - he's across the desk - because it's so complicated.

McC: Fine

General

Hines: Hello, General -

McC: Hello, General -

H: The question arises out of the five hundred and seven million dollars to go into the Government's converted life insurance fund to release the certificates we have there on which we have made loans to Veterans. Now the law provides, as I understand it, an issue of five hundred and seven million bearing four and one half percent ten year bonds - that is they're not callable for ten years - but any part of them needed to pay losses from that fund can be sold or will be redeemed by the Treasury to meet those losses.

McC: That's right.

H: Now, the attitude Mr. Bell took, when we talked to him, was that the entire appropriation would have to be made to the Adjusted-Service Certificate Fund and from that fund they would purchase five hundred and seven million dollars in bonds which would be turned over to the Government Life Insurance Fund. Now, apparently up there they have an idea that they do not need to appropriate that amount. And of course we put the estimate in for the full amount following the thought of the Director of the Bureau of the Budget that the whole amount ought to be appropriated regardless of how much cash the Secretary of the Treasury had to raise to meet the entire situation - he would always have the appropriation available to meet it all if the Veterans demanded all. Now that's the problem that's before them up there and I think they're trying to get the Secretary to agree that it's not necessary to appropriate five hundred and seven million of the two billion two hundred and thirty-seven million, thinking that he could issue those bonds without an appropriation.

- McC: Well, off hand, I think he can.
- H: Well, now, that's what they're saying up there.
- McC: I don't know any reason why - they authorized the bonds to be issued under the Second Liberty Loan Act -
- H: Yes
- McC: And - there's just an exchange of securities. You already have in the Insurance Fund, representing security for loans, these Adjusted-Service Certificates on which you have loaned from that fund -
- H: That's right.
- McC: They want to clean up the Insurance Fund and get it out of this bonus picture.
- H: That's right.
- McC: And under Section 5 of the new law they authorized the Secretary of the Treasury to issue bonds of the United States bearing four and one half percent interest - ten years bonds, not callable within ten years, but, this admonishes the Secretary, that if you should need any money in the Insurance Fund before that ten year period, you would have to dig up the bonds yourself - They will have to provide money when that time comes.
- H: Well, now look, have you considered this language in Section 5? - ".....and to pay to the United States Life Insurance Fund the amount of the outstanding liens against such certificates". I think the Director of the Bureau of the Budget thought from that "pay" that it would require an appropriation to pay.
- McC: Well, I don't think so, because they tell him how to pay: - ".....and that's to pay in the bonds of the United States issued pursuant to this authority". I don't think that we ever appropriate money for the purpose of redeeming bonds that re redeemable at some future time.
- H: Yes, well now that's the point that's at issue.
- McC: Have we ever - does Treasury know of any -

H: Well - I'm not sure - I couldn't answer that, whether they've issued bonds without an appropriation back up but apparently the Budget felt in this case - and I rather agreed with them because of the language of the law both in the section that I have referred to and in Section 4 and then the wind up of the bill where they direct or authorize an appropriation to cover the whole thing.

McC: Well, of course, an authorization to appropriate means simply as much as is necessary.

H: Yes

McC: So that isn't controlling - No, it's - this is that only thing that occurred to me, General, whether or not - and somebody in Treasury ought to look that up right away - . This, as I regard it, is nothing more than a substitution of securities, it isn't payment really, it's substitution, but they used "pay" there to accomplish everything with one word, that is -

H: Yes

McC: he is to issue these four and one half percent bonds. The only question I think the Treasurer will have about it will be the administrative cost of issuing the bonds - printing them and issuing them and turning them over to you.

H: Well, I don't know, I can ask the Secretary, he can answer himself here to you on the question of whether they have issued bonds. Is this a matter that the Attorney General ought to be called in on at all?

McC: Well, I wouldn't think so. I don't know any -

H: There -

McC: It probably has been determined at some time and probably it's an appropriation question -

H: Yes

McC: But, normally, you see, here's the difficulty, normally here's what happens - when you raise money by the issuance of bonds the money goes into the general fund of the Treasury because you sell the bonds -

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H: That's right.

McC: Then it must be appropriated.

H: That's right.

McC: But here no money goes into the general fund of the Treasury at all -

H: It goes into the Adjusted-Service Certificate Fund and from there why it's paid out -

McC: No (Laughter) any dollar that gets into the Adjusted-Service Certificate Fund must get in there as the result of an appropriation.

H: That's right. Well, that where all this is handled from -

McC: No - General, here's the picture.

H: Yes

McC: With reference to the loans that you have made from the Insurance Fund the Adjusted-Service Certificates under this new scheme must be regarded to the extent of that loan as having heretofore been paid.

H: That's right.

McC: So that the Insurance Fund is out of it, and - or any loans that you have made either - out of either fund, the Insurance Fund or the Adjusted-Service Certificate Fund.

H: Well, now look at Section 6, it says this, "The Adjusted-Service Certificate Fund is hereby made available for payments authorized by this Act...."

McC: Well, that's the payment that the net amount that you certify in the right hand column as the amount mentioned.

H: Yes

McC: That would make all the measures in the Adjusted-Service Certificate Fund now and all that Congress put there would be available to do two things: to pay these Baby Bonds as they come due and to pay

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the checks that you have to issue now for cash to pay any sums that it is necessary for you to pay the banks in order to secure the release of the bonded certificates.

- H: Well, all of the - all of the bonds we issued to the Veterans of course, if they waited for that twenty-four hours they could redeem them in cash, so he would have to have an appropriation - for that.
- McC: Oh! he's got to have an appropriation! That's no question at all, but what there must be enough money appropriated now to pay every dollar of Baby Bonds -
- H: Yes
- McC: - that the Treasury issues, to pay every check the Treasury issues for those under fifty dollars or -
- H: Yes
- McC: - you know, the cash.
- H: Yes
- McC: Now, and remember, all of the Baby Bonds and all of the checks and all of your costs in getting certificates away from banks -
- H: Well, now, as I understand your position, you feel that the issue of the four and one half percent bonds to the Government's Life Insurance Fund does not require an appropriation?
- McC: That's my judgment.
- H: Yes
- McC: I think there's plenty of -
- H: Although the appropriation we're asking for - of course the entire amount was to go to the Adjusted-Service Certificate Fund, that's the language we used up there.
- McC: Yes, well here would be the picture now, if you issued your check then against that fund or had Allen -
- H: Yes

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- McC: payable to the Treasury for the amount of bonds that have been turned over to you - four and one half percent bonds -
- H: Yes
- McC: That would go back into the general fund so we get nothing - there's nothing happened as the result of the whole transaction.
- H: Yes, well now that's - that's a matter of course that I'm not as familiar with as you are.
- McC: That money wouldn't be available to redeem those bonds. Congress would still have to reappropriate it to redeem the bonds.
- H: Even as they come due?
- McC: Yes
- H: Well, of course the Treasury wouldn't raise that money, except as we demanded it, it wouldn't be necessary. They don't.
- McC: No, but here, suppose that Congress now appropriated five hundred and seven millions of dollars to take care of those bonds -
- H: Yes
- McC: And that money went to the Adjusted-Service Certificate Fund -
- H: That's right.
- McC: And Allen requisitioned it and drew a check for five hundred and seven millions of dollars and turned it over to Mr. Morgenthau.
- H: Yes
- McC: Mr. Morgenthau could do nothing with at all but put it in the general fund. Now that money would have to be reappropriated before he could ever use a penny of it to redeem those bonds.
- H: I see.
- McC: So I don't see that you get anywhere by making it an appropriation now.

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H: Well, that was the point, the Budget took the stand and I rather agreed with them that - for the Secretary to be prepared to meet the maturity of any bonds whether it was in the fund or the Baby Bond - that he would require the whole appropriation to do so.

McC: Well, he's certainly got to have all money to meet the Baby Bonds.

H: Yes, well, we - we of course have no way of telling how rapidly we would need the other in the fund.

McC: We'll never need it, General, as the result of anything that happens on the bonus. It'll only be insurance.

H: That's right.

McC: So that -

H: It will only be needed as allowances in that -

McC: No this - this is taking the insurance feature out of the bonus picture.

H: Yes

McC: And these bonds and turning them over to you for - as security for your insurance fund it immediately eliminates that fund from the picture.

H: Yes

McC: And I don't think that Congress has to the maturity day to that - it's ten years away and all they have to do is to take up such bonds as you authorize. And Congress should not involve that appropriation, it seems to me, in the bonus legislation. I think it's purely a side issue which is an insurance matter now.

H: Well, of course, it was put in, due to the language in Section 6.

McC: Yes

H: Which made that fund available to cover the entire Act. And for that reason, why the Budget felt, and



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H: Well, if he does that, why -

McC: Then it's got to go to the general fund as bond receipts.

H: I see. Well, that's the phase of it I hadn't thought of. - I thought

McC: Well, you talk to him a minute and I'll be right here. If he wants to talk to me again tell him to give me a buzz.

H: All right, thank you.

McC: Goodbye

H: Goodbye.

The loud speaker was on and all those in the room heard both sides of the conversation between General Hines and the Comptroller General.

HM, Jr. agreed that McCarl was entirely wrong and felt that he wanted to put the thing up to the Attorney General to advise us. While the group was still present, the Secretary called up Senator Byrnes and told him about the conversation of General Hines with the Comptroller, but Senator Byrnes insisted that he and McCarl were right; that he was going to take the \$507,000,000 out and then facetiously remarked, "We will leave it to the Republicans to put it back."

The Secretary then telephoned to the President that the Committee was trying to put the President in a hole. He got the President's permission to put the whole thing up to the Attorney General. Immediately after this conversation, Hester left for the Attorney General's office.

February 3, 1936

Present today at the conference in the Secretary's office to discuss AAA and tax legislation for the agricultural program were: Mr. Wideman, Chester Davis, Mr. Ezekiel, Mr. Haas, Mr. Turney, Mr. Savoy, Mr. Oliphant, Secretary Wallace and Mr. Filler.

Secretary Morgenthau opened the meeting by saying, "Who will open the meeting with prayer -- for the Treasury?" Mr. Oliphant responded with the following: "I think Mr. Haas has a memorandum bearing on the budget position for the years 1936 and 1937. I think that is a picture you will probably want to have before you."

Mr. Haas explained: "We worked on these figures Saturday afternoon and it was difficult to get any check, but in round terms, expenditures for the AAA for the fiscal year 1936 aggregated \$11,000,000, by January 30. Processing tax receipts to date aggregated \$88,000,000." He continued to read from his prepared memorandum, a copy of which is attached.

At the conclusion of #3, on page 1 of the memorandum, some discussion took place. Oliphant said, "That boils down, as I see it, even with the re-enactment of the processing tax at full rate, we would wind up at the end of 1936 roughly \$300,000,000 in the hole." Ezekiel explained, "Part of that is on deferrment of processing tax," and Oliphant said, "Yes." Secretary Wallace inquired, "To what extent does the public look on the budget -- on a year to year basis or month to month -- and to what extent does it take in the situation -- as of this year or succeeding years." Haas replied, "We have had trouble on that. They want to look at it as a week-to-week or month to month basis. They attempt to compare collections with expenditures even for short periods." Secretary Morgenthau stated, "The budget is our only bulwark against expenditures on the part of Congress. It's supposed to be sacred."

Mr. Haas continued to read from the memorandum. He began on page 2 with respect to the 1937 budget. After reading the first sentence of No. 1, to the effect that estimated expenditures for the fiscal year 1937 are \$550,000,000, he stated the following: "I might say here, with regard to the \$500,000,000 we used, that we were interested in the figure the President used in his budget of \$547,000,000 and why we had \$478,000,000. I discovered the difference arises from this point: that the \$498,000,000 estimate did not include the estimate for sugar, which amounts to \$50,000,000, so if you include sugar it is \$547,000,000 or \$548,000,000." Mr. Haas resumed the reading of his memorandum.

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When he had reached No. 5, the Secretary interrupted to say that when the memorandum is checked, he would like to give Agriculture and Justice copies and also send a copy to the President. Mr. Haas concluded the reading of the report.

The Secretary inquired, "Where do we go from here?" and Mr. Oliphant replied, "That's about the budgetary picture and we are now on the tax end. To meet that we have been working on a number of suggestions and the drafting job is pretty well along. No. 1 was alteration of the present specific exemption from estate taxes which would impose no tax on an estate of \$40,000 and then would gradually decrease that exemption until it disappeared on an estate of \$80,000. Drafting of that is done. Another is perhaps a tax of 10% on surtax on unearned income. There is no difficulty about the drafting of that. Then there was a provision to eliminate the present exemption of dividends from the normal Federal income tax. That merely requires the repeal of a single phrase. And then another proposal is a tax on undistributed corporate surpluses which would be necessary companion legislation to go along with the elimination of taxes on dividends. The final item is that the bill for the reenactment of processing taxes to the extent of about two-thirds of the rate would give you some \$385,000,000. That work has already been sunstantially done, hasn't it, Mr. Turney?" Mr. Turney replied that it was in pretty good shape.

Continuing, Mr. Oliphant said, "The final item is the so-called "windfall" legislation on impounded money turned back and lawyers' fees connected with it. There is a good deal more work to be done on that, although we are making some progress."

HM, Jr. told the group that any of the drafts or anything on the subject that the Treasury has is available to those present. Mr. Oliphant added, "I might say in connection with that, that last year and at other times we have had a very difficult situation on the Hill, if any of these texts get out. Because of the very, very strong resentment down there of anybody outside of Ways and Means trying to draft a tax bill, we have the practice here of numbering every copy made and keeping them in a safe so there will be no possibility of the text getting out." Mr. Morgenthau said, "I hope you get the little gentle hint!" Mr. Oliphant added, "We have been through a lot of grief -- the feeling is so strong -- and they point to the statute which prohibit Departments from making legislation." Mr. Morgenthau stated, "I, as Secretary, am prohibited," and Oliphant said, "Every other Secretary is." Secretary Wallace wanted to know if this

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was on taxes and Oliphant said yes. Secretary Wallace then inquired, "Why are we doing it then?" When Oliphant said "We are not doing it," Mr. Morgenthau added, "What we do is to keep saying that when they send for us, we will be glad to make suggestions, and Mr. Doughton always answers that he isn't ready to send for us. What we do is to sit here until they do send for us." Ezekiel wanted to know if that was particularly on tax legislation and Oliphant explained, "Yes. The statute also covers estimates of expenditures -- the whole budget procedure."

Mr. Savoy told the group that he had sent over this morning to Mr. Turney and the Department of Justice the first draft on the processing tax, "and we have this practically in the final draft as soon as we get final information on rates." Secretary Wallace inquired if there was any need to talk about rates of processing tax and HM, Jr. said he did not think so. Hase explained that the Treasury had just dropped them down proportionately in making the estimates. Secretary Wallace said, "Our people feel it desirable to change it in certain particulars, but it comes out in the same general answer, \$358,000,000." Turney called attention to the following: "Your draft puts in a few additional commodities that have not been subject to the tax," and Secretary Wallace replied, "Yes; it would be advisable to do that because the compensating tax feature would not exist under new legislation."

Mr. Oliphant said he wanted to get instructions on one point so he could be clear on it. "As I understand it," he said, "the program agreed upon at the last meeting at the White House did not, as it turned out, take care of the 1938 situation and that there is nothing in this tax program, that we are working on, to take care of about \$300,000,000." Ezekiel answered him, saying "To the extent that any substantial part of the \$350,000,000 deferred taxes is recaptured, it would be offset against that." Mr. Oliphant added, "But no provision to take care of it in this 1938 budget."

HM, Jr. made the following suggestion to Mr. Oliphant. He said, "What I would suggest, Herman, is that we lay out alternative plans on how we can raise \$300,000,000 and when we again see the President and have George's memorandum we can say, "If you want to keep the budget you have to raise \$300,000,000 and here are half a dozen different ways you can raise it. That's important. I am never going through again what I did the first three months I was here when the President, through lack of information, found he was spending

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\$3,000,000,000 more than he thought by people advising him before my time, by those who preceded me."

Secretary Wallace remarked, "The President dictated to us an outline of a proposed statement and I wondered if some one -- I saw someone taking notes. Have you worked on that?" Mr. Savoy replied, "Yes; I have." Mr. Oliphant said, "That's the proposed message to Congress to accompany the tax bill," and Mr. Savoy explained that following up the President's idea and combining with it some of Secretary Wallace's thoughts, I sent a draft this morning to Justice and the Treasury. Mr. Wideman thought it was a little bit strong and I expected it would be toned down, but it was just a draft for their consideration. I attempted, not to cover the second part on general taxes, but the first part on the Supreme Court decision and the results following that decision." Oliphant said he had limited his work on it to a draft of the second part on the general tax program. Savoy told Mr. Oliphant that he was prepared now to go to work with him on toning it down. He said, "I don't know how much Mr. Wideman thinks it has to be toned down or how strong we can be about the results following the Supreme Court decision. I was going to say that Justice recommended in the first message that we not put the onus on the Supreme Court for repeal of the Bank-head potato act, whereas it was my thought from what the President said that he wanted the onus put there and so he sent an alternative. That is to be determined, first, because we don't talk about the same things unless we put the results on the decision." Mr. Oliphant said, "As I see it, the question involved in part one is the Administration attitude toward the Supreme Court and that, I assume, is primarily the responsibility of Agriculture and Justice."

"Just to clear my own mind," Mr. Morgenthau said, "we have a message to send to Congress in a formative stage. Will that be accompanied by a tabulation as to revenue? Will that be a part of the message?" Mr. Oliphant answered the Secretary as follows: "The message would consist of two parts. In part one we must do something about getting back impounded funds and getting after the big lawyers' fees, etc. It raises the question of the Administration's general policy with reference to the Supreme Court. Part 2 would be proposed general taxes, stating the general tax picture both in relation to our tax problem and overlapping tax with the States, etc." Secretary Morgenthau inquired if the drafts would be ready for Wednesday morning and Oliphant and Wideman both thought they would be.

Secretary Wallace remarked, "With regard to part 2, in formulating your message it seems to me -- your proposed

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message -- it seems to me you are handicapped until the President indicates which of the messages he wants," but Oliphant disagreed. He said, "I don't quite see that, because he is going to want to send something on general taxes and that involves our taking our estimates and discussing fiscal implications in this type of tax and that type of tax." Mr. Oliphant told Secretary Wallace that it probably will be in shape to take to the White House on Wednesday afternoon and Mr. Morgenthau suggested a meeting on Wednesday morning in his office. Secretary Wallace said, "It would seem to be that by Wednesday morning we should round the situation up sufficiently so that what they present to us Wednesday will be in final form for approval by us and then we will be ready for the President in the afternoon." It was agreed that there would be a meeting on Wednesday morning.

Mr. Savoy inquired if anything would be included in part 2 about reduction to the consumer and HM, Jr. said he thought that was up to Agriculture. Ezekiel thought it would be good politics to mention it. Wallace agreed it would be good politics. "This approach," he said, would mean a reduced burden on consumers' incomes of \$200,000,000! And Savoy added, "From what it would have been under the old tax rates." Oliphant inquired, "Now you are talking about new processing taxes?" and Secretary Wallace replied, "As compared to the \$550,000,000 under the old bill." Mr. Morgenthau said it sounded good to him and Oliphant said, "That fits in very well with the picture we want to paint of the whole tax structure; that increase of taxes is of non-inflationary character."

The meeting adjourned with plans for a meeting at 11 o'clock Wednesday in Secretary Morgenthau's office.

February 3, 1936

Mr. Morgenthau today called in Bartelt, Fulloway, Gaston, McReynolds, Haas, Upham and Opper. He gave them a synopsis of his conversation with the President yesterday when they discussed the spending program of the Government and the possibility of economizing. As a result of that conversation, HM, Jr. told the group, the President has called a meeting for Tuesday, the purpose of which will be to get at the realization of assets. The Secretary is of the opinion that we can realize between \$300,000,000 and \$500,000,000.

To begin with, HM, Jr. said, he wants charts for the following agencies: RFC, FCA, HOLC, AAA and PWA (the \$3,300,000,000 fund.) He also wants a memorandum to accompany each chart pointing out to the President some of the things he might do towards the objective of economy. All charts with respect to assets are to be as of December 31, 1935; in other words, the first six months of the present fiscal year.

He explained that each chart for each of the agencies should show the amount of money allocated to that agency, the amount withdrawn and the amount remaining unexpended. On that chart should also be shown the same information for each of the affiliates of the major organization.

HM, Jr. decided that because of the short time intervening between now and the meeting on Tuesday, there should be one chart, completely finished, which he could lay on the President's desk to show how much money has been allocated to one of the organizations and how much can be saved.

HM, Jr. asked McReynolds to concentrate on charts showing the number of employees in each agency, going back to the date of their inception, and in addition he wants a chart for the whole Government showing the trend of employment.

HM, Jr. also wanted to have today a history of the \$80,000,000 seed loan bill to be put on the President's desk. The Secretary wants to point out to Marvin Jones that if the bill passes, the money is not included in the budget and, therefore, they will have to raise new revenue for it.

February 3, 1958

Secretary Ickes told me today that he had gotten the best of reports from Chicago about Wayne Chatfield-Taylor.

February 3, 1938

Ambassador Sze called me yesterday and that he had received a cable from Kung; that Kung was very pleased with what I had said about the success of their financing so far; that Kung would be pleased if I would give out here how much silver we bought and, to give them a real boost, that I thought they were making good.

I will have something to say along this line at my press conference this afternoon.

February 4, 1936

Mr. Morgenthau called together the group which met with him yesterday to discuss the economizing program of the President. Present were Bartelt, Fulloway, Gaston, McReynolds, Haas, Upham and Opper.

Mr. McReynolds brought in with him a chart showing all government employees for the period 1931 to 1935 and an analysis by months for the year 1935 of the number of Government employees for the lending agencies. Photo-static copies are attached.

Haas reported that his men had not been able to make much progress but had gotten together some information on Farm Credit to be used as an example at today's meeting at the White House. HM, Jr. had Upham itemize this information concerning possible savings from FCA allocations. Included in this tabulation was the item of \$39,000,000 in crop and production loans; loans to stricken agricultural areas, with a balance on December 31, 1935 of more than \$8,000,000 not needed and repayments before June 30, 1947 probably amounting to more than \$14,000,000; more than \$29,000,000 available on December 31 in the account "Emergency Crop Loans"; a possible \$50,000,000 investment in capital stock of cooperative banks which might be retired, and substantial reduction or the elimination of \$100,000,000 for loans to joint stock land banks. The Secretary said he would present this list to the President at today's meeting.

Fulloway reported that the Department of Justice agrees with the Budget and cannot understand how the Comptroller General arrived at his opinion in connection with the proposed cut of \$507,000,000 from the bonus appropriation bill. Justice is having a meeting with the Comptroller General and the Budget today.

February 4, 1936.

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A group met in the office of the Secretary of the Treasury at 12 o'clock to discuss budget savings by lending agencies.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,  
Edward F. Bartelt, Accountant, Accounts & Deposits,  
Charles H. Fullaway, Administrative Assistant, Bureau of Budget,  
Wm. H. McReynolds, Administrative Assistant to the Secretary,  
C.V. Opper, Assistant General Counsel,  
Herbert E. Gaston, Assistant to the Secretary,  
Wesley Lindow, Research Assistant,  
Henry C. Murphy, Research and Statistics Assistant,  
C.B. Upham, Assistant to the Secretary.

Mr. McReynolds presented two charts showing the number of civil employees in the Federal Government.

Mr. Haas said that his people had been working on figures of the lending agencies and had rough diagramatic sketches of the expenditure situation. With respect to the return of the \$100 million preferred bank stock money, he said there seemed to be some difficulties about the willingness of the banks to pay off. With respect to cotton loans, he was inclined to think the budget already provides for liquidation.

Mr. Lindow presented some illustrative suggestions for savings possibilities in the FCA. He also presented a rough chart of expenditures of that agency.

Mr. Lindow referred to an allocation from the RFC of \$100 million for joint stock land banks, very little of which has been used and most of which could be cancelled. He said that the

Treasury had supplied \$134 million to the banks for cooperatives and have outstanding only \$50 million of loans and some \$81 million invested in Government securities and guaranteed securities which might be returned to the Treasury.

Mr. Haas suggested that there was a number of capital items around the town which might be turned back to the Treasury. In this connection the \$139 million made available to the Federal Reserve for industrial loans was indicated and it was suggested that \$100 million of it might be returned.

Mr. Lindow suggested that funds in the crop and production loan accounts of the FCA and revenue expected during 1936 and 1937 may total around \$40 million.

It was suggested that this \$40 million might take care of the \$40 million Seed Loan Bill passed yesterday.

Mr. Morgenthau had previously asked Mr. Fullaway to prepare a letter to veto this bill because it was not included in the budget.

Mr. Lindow said that the loans in stricken agricultural areas account had \$6 million which 1936-1937 revenues would bring up to \$120 million. He said that the budget provided \$4 million for administrative expenses in the FCA while their administrative expenses are in fact \$10 million, the difference being made up from various other funds.

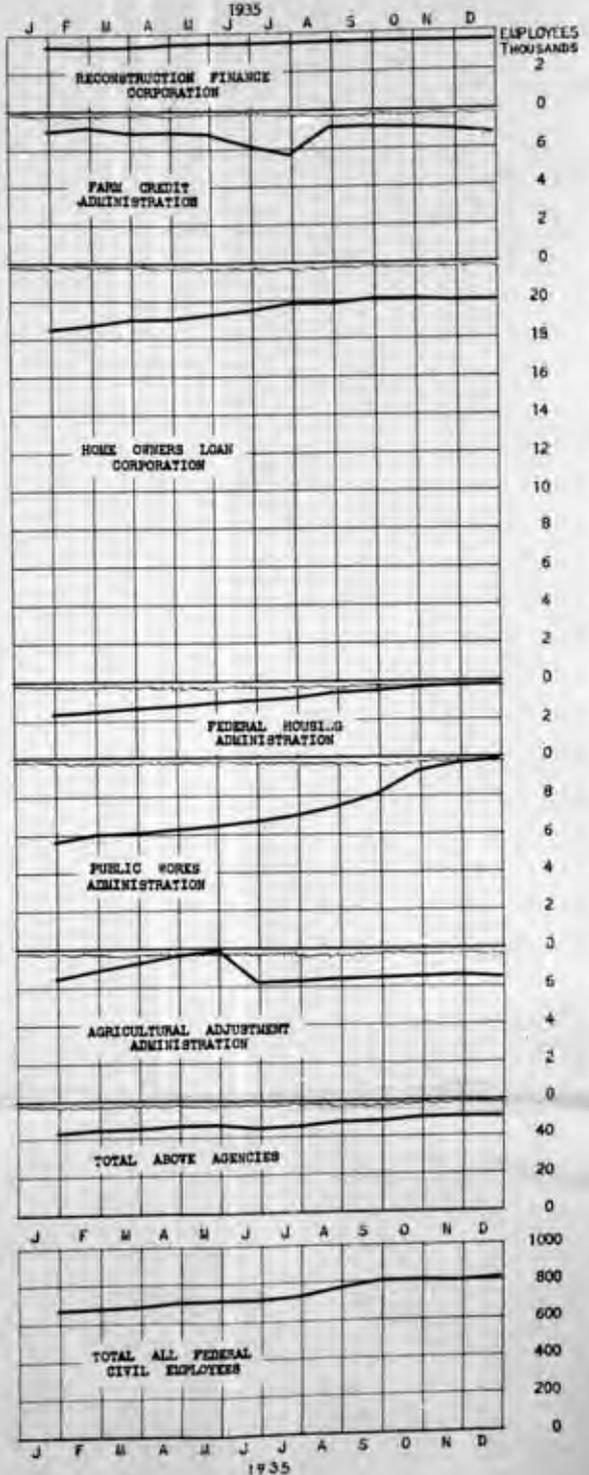
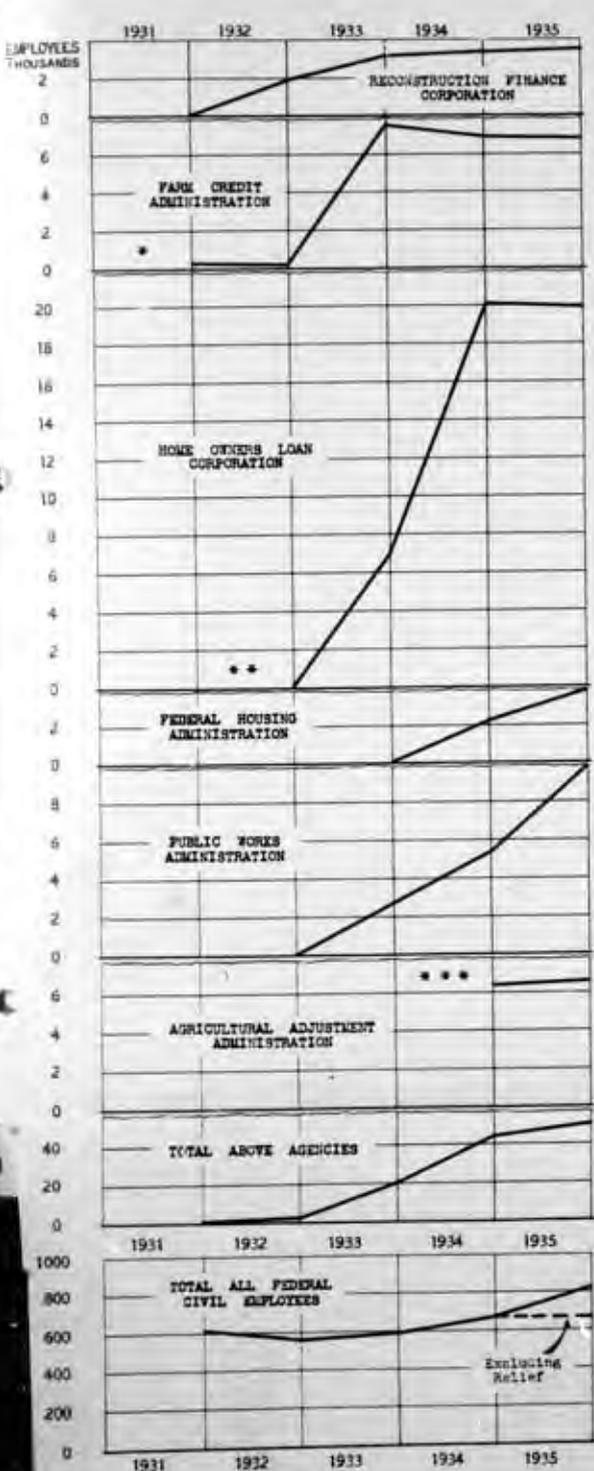
It was reported to be difficult to unscramble the inter-related FCA accounts.

Mr. Lindow said there is an item around \$29 million in the Emergency Crop Loan Account. All of these items, he said,

affect the budget directly except the RFC allocation to joint stock land banks.

It was thought that these items from the FCA accounts were sufficient to illustrate the kind of thing that might be made available to the Treasury in effecting reductions in expenditures.

FEDERAL GOVERNMENT, NUMBER OF CIVIL EMPLOYEES



\* Federal Farm Board  
 \*\* Federal Home Loan Bank Board  
 \*\*\* Figures carried in Department of Agriculture Statement prior to 1934, segregation not available

FEDERAL GOVERNMENT, NUMBER OF CIVIL EMPLOYEES

	December 31, 1931	December 31, 1932	December 31, 1933	December 31, 1934	December 31, 1935	Relief	Net for Dec., 1935, Excluding Relief
Reconstruction Finance Corporation		1,948	3,234	3,409	3,549		
Farm Credit Administration	A/ 351	A/ 233	7,522	6,907	6,818		
Home Owners' Loan Corporation		B/ 88	6,968	20,099	19,958		
Federal Housing Administration				2,237	3,818		
Public Works Administration			2,759	5,426	9,840		
Agricultural Adjustment Administration			C/	6,397	6,587		
<b>Total - Above Agencies</b>	<b>351</b>	<b>2,269</b>	<b>20,483</b>	<b>44,475</b>	<b>50,570</b>		
<b>Total Federal Civil Personnel Including Executive Departments, Independent Establishments and Other Federal Agencies</b>	<b>606,368</b>	<b>564,103</b>	<b>591,675</b>	<b>672,273</b>	<b>815,789</b>	<b>152,830</b>	<b>662,958</b>

ANALYSIS BY MONTHS FOR THE YEAR 1935

	January	February	March	April	May	June	July	August	September	October	November	December
Reconstruction Finance Corporation	3,407	3,408	3,408	3,477	3,538	3,559	3,577	3,602	3,595	3,588	3,568	3,549
Farm Credit Administration	7,072	7,202	6,895	6,952	6,812	6,224	5,762	7,226	7,229	7,192	7,053	6,818
Home Owners' Loan Corporation	18,566	18,738	19,030	19,066	19,372	19,588	19,886	19,891	20,072	20,078	19,978	19,958
Federal Housing Administration	2,395	2,519	2,708	2,822	2,984	3,095	3,230	3,437	3,560	3,688	3,776	3,818
Public Works Administration	5,707	6,033	6,086	6,235	6,471	6,729	7,050	7,474	8,039	9,387	9,766	9,840
Agricultural Adjustment Administration	6,486	6,993	7,358	7,690	7,874	6,276	6,379	6,480	6,541	6,573	6,646	6,587
<b>Total - Above Agencies</b>	<b>43,633</b>	<b>44,893</b>	<b>45,485</b>	<b>46,242</b>	<b>47,051</b>	<b>45,471</b>	<b>45,884</b>	<b>48,110</b>	<b>49,036</b>	<b>50,506</b>	<b>50,787</b>	<b>50,570</b>
<b>Total Federal Civil Personnel Including Executive Departments, Independent Establishments and Other Federal Agencies</b>	<b>674,997</b>	<b>680,546</b>	<b>684,918</b>	<b>709,977</b>	<b>712,112</b>	<b>717,712</b>	<b>729,769</b>	<b>770,128</b>	<b>800,874</b>	<b>804,678</b>	<b>800,079</b>	<b>815,789</b>

A/ Federal Farm Board.

B/ Federal Home Loan Bank Board

C/ Figures carried in Department of Agriculture statement prior to 1934. See caption not available.

ITEMS ILLUSTRATIVE OF POSSIBLE SAVINGS IN THE  
BUDGET

A quick examination of the appropriation for Farm Credit Administration indicates that some of the following items may possibly be reduced. Legal limitations, however, and possible necessity of inter-exchange of funds have not been thoroughly examined because of the limitation of time.

The savings are of two kinds:

1. Items directly affecting the budget estimates in the remainder of the fiscal year 1936 and the fiscal year 1937.
2. Appropriations which are not expected to be utilized before June 30, 1937 and which, therefore, do not appear in the budget estimates.

I. Items directly affecting the budget.

1. There was available on December 31, 1935 more than 39 million dollars in crop and production loans which, according to the budget, was not needed. Repayments into this account before June 30, 1937 will increase this amount by more than three million dollars.
2. There was available in loans in stricken agricultural areas account on December 31, 1935 more than 6 million dollars which was apparently not needed. Repayments into this account before June 30, 1937 are expected to aggregate more than 14 million dollars.
3. In the account entitled "Emergency Crop Loans" 1932-33, there was available on December 31 more than 29 million dollars.
4. On December 31, 1935 the investment of the Government in the capital stock of the Banks for Cooperatives was 134 million dollars. Loans by these banks as of the same date amounted to only 50 million dollars. Investment in government and government guaranteed securities were in excess of 81 million dollars. There would seem to be an amount of at least 50 million dollars in this investment in capital stock which could be retired without harm to the banks.

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**II. Appropriations which may be reduced.**

The RFC has made available 100 million dollars for loans to joint land stock banks. Since little of this money has ever been used for this purpose and estimates in the budget indicate that practically none will be used in the next fiscal year and a half, there would seem to be little reason why this appropriation could not be substantially reduced or entirely eliminated. This would not affect the budget directly but would reduce the amount of funds which might be expended in the future.

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There are similar possible savings in other of the lending agencies. For instance, the Treasury is authorized to make available to the Federal Reserve Banks approximately 130 million dollars for loans to industry. 15 million of this has been so used. It would seem possible to return to the Treasury perhaps 100 million of this amount.

**NB** It should be kept in mind that these illustrative examples have not been thoroughly checked for complete accuracy.

February 4, 1936.

The Interdepartmental Loan Committee met with the President at 2:15 P.M. today. Those present, in addition to the President, were:

Henry Morgenthau, Jr., Chairman of the Committee,  
Henry A. Wallace, Secretary of Agriculture,  
Harold L. Ickes, Secretary of the Interior,  
Jesse Jones, Chairman, Reconstruction Finance Corporation,  
Stewart McDonald, Federal Housing Administrator,  
Chester C. Davis, Agricultural Adjustment Administrator,  
C.B. Upham, Secretary of the committee.

The President explained that he needs to secure between \$200 million and \$300 million from the lending and spending agencies of the Government, to be made available to the Treasury for the purpose of meeting increased expenditures occasioned by the payment of the bonus, the enactment of a Seed Loan Bill and other unbudgeted items. He explained that he is up against a political situation which makes unpopular any tax bill. If he had his way, the President said, he would provide for some kind of a processing tax, but he would also increase the income tax rates. The political problem presented is that of avoiding new taxes, if possible. For that reason a preliminary study has been made to see how much is needed. It is obvious that agriculture will need \$500 million to keep the farm policy going and put the new farm bill in operation. The President expressed the hope that it might be held down to \$490 million because that seems less than \$500 million, and because he would like to be in a position to say that the taxes for the new farm program are less than for the old.

The President said he was not in the least worried about asking Congress for the \$500 million because that is merely a replacement of former or present taxes. It is not an increase in expenditures. The total outflow will be the same, but the bonus, the Seed Loan Bill, which was passed yesterday, and other items relatively small in amount but large in total, increase the requirements on the Treasury. So, if a manufacturers floor tax or some other tax is enacted for the carrying out of the new farm program we will still need \$200 million or more over the original budget estimates of January. Mr. Morgenthau confirmed that between \$700 million and \$800 million new money would be needed, including the bonus.

If the Administration can avoid the imposition of new taxes it will be so much to the good politically. The only way to make things come out even for the Treasury on the January budget basis without new taxes and without additional borrowing is for the lending agencies and spending agencies of the Government to make savings. Even though some of the lending agencies get their money separately directly from the market, when they borrow it affects the borrowing possibilities of the Treasury. Some of the agencies such as the RFC finance themselves directly through the Treasury. Some agencies such as the FHA have no financing activities and are mainly spending agencies. The only savings they can make would appear to be in overhead or administrative expenses. If we can prevent the lending or spending in all the Government agencies of between \$200 million and \$300 million no new tax would be required the President said, but only a substitute tax for the AAA unconstitutional processing tax. It would make a much simpler picture for

the country, he said.

It developed that the AAA is in the 1937 budget for \$547 million and it was suggested that the new program call for \$10 million less than the old.

The President raised the question of where savings can be made and referred to the fact that the Treasury had made a quick survey of one of the lending agencies -- the FCA -- and had made some suggestions of possible savings in the accounts of that agency. The President then read a memorandum entitled "Items Illustrative of Possible Savings in the Budget", attached. It lists a number of suggestions for cancellation of spending authorizations and asset recoveries in FCA and for a return to the Treasury of \$100 million now available to Federal Reserve Banks for industrial loans. The President then read a memorandum prepared by Charles H. Fullaway, Administrative Assistant of the Bureau of the Budget, carrying a statement dealing with the work of the Bureau of the Budget in connection with 16 of the emergency agencies brought under its jurisdiction. The statement showed that compared with the estimates submitted to the budget by 15 of these agencies, reductions of \$17,600,000 for the fiscal year 1936 and \$12,900,000 for the fiscal year 1937 had been effected. The statement also pointed out that there had been a complete lack of cooperation with the Bureau of the Budget on the part of the RFC.

Mr. Jones insisted that the Director of the Budget has been given everything by his corporation, maybe not in the form that it is wanted, but in full and in detail.

The President then referred to a table showing the number of

civil employees of the Federal Government and said that the total employees of the 6 agencies following -- RFC, RCA, HOLC, FHA, PWA and AAA - had increased month by month from 43,633 in January, 1935 to 50,570 in December, 1935.

The question now is, the President said, where can we save the money. We must do it. He asked for any bright ideas.

Mr. Jones spoke up with the observation that it is up to all of us to save wherever we can.

The President replied that that was not enough -- he had to have definite figures.

Mr. McDonald said that they had a \$200 million allocation from the RFC for insurance under Title I and that he was proposing to limit it to \$100 million which would permit a cancellation of \$100 million authorization.

The President suggested that we go right around the room and hear from everyone. He suggested that Mr. Jones had three possible ways of contributing to the situation, (1) a reduction in borrowing authorization, (2) a reduction in actual expenditures for administration, and (3) by slowing up on the loans and securing payments on loans and other commitments.

Mr. Jones suggested with respect to reducing borrowing authorizations that it was just as effective not to make use of them -- operations could be controlled in that way.

The President replied that that didn't help him, but suggested that if he could say the RFC has \$100 million authorization which it no longer needs and so should be repealed by the Congress thus removing a potential obligation on the Treasury, it would be a real help. True, many of the authorizations are not directly in the

budget but the more that potential obligations can be cut, the sounder it will be to recommend that no new taxes be levied.

Mr. Jones thought he could pick up a good deal of the required money in the RFC by cancelling authorizations. He was of the opinion it would not help much, but admitted it might and agreed that the psychological effect might be good.

Mr. Jones was inclined to think that a reduction in RFC administrative expenditures would not help the Treasury since they come out of RFC profits.

Mr. Morgenthau replied by referring to the Budget Bureau statement showing that administrative expenses of 15 of the agencies had been reduced since they had been brought under that Bureau.

The President added that a reduction in administrative expenses would have a good psychological effect also, and said, that as a matter of fact it effected the budget since the return to the Treasury would be greater if administrative expenses were lowered. Any net savings helps the Treasury position and helps me in my tax recommendations, said the President.

With respect to slowing up on loans, Mr. Jones said they were refusing applications every day, even permitting some companies to go into receivership. He wants the banks to take over the RFC load. Asked about banks paying back some on account of preferred stock, Mr. Jones said that there was no chance after yesterday's Supreme Court decision which made preferred stock subject to tax by the States.

There was considerable discussion of the proposition with respect to returns to the RFC and Treasury from preferred stock

-6-

payments, the President wanting to know why they couldn't pay it back.

Mr. Jones explained that the banks are unable to induce private investors to take it over and that if they retire it they will have unsound capital structures.

Mr. Morgenthau interposed to say that the Comptroller had reported that some 100 banks could safely pay back in excess of \$100 million.

Mr. Jones said that this included \$50 million a piece from the National City Bank of New York and the Chase National Bank and he had talked both to Aldrich and Perkins and they did not want to pay the RFC. Mr. Morgenthau expressed the opinion they would be willing to retire it.

When pressed on the matter of part payment, Mr. Jones thought they might pay off \$10 million each. He said he had it in mind to get back a substantial amount during the year from all banks. He was insistent that no one tell him how to do his job but rather to tell him what is wanted and let him do it his own way. Mr. Jones said banks were panicky to retire stock after Crowley's New Orleans speech. Chase and City can't retire theirs and have sound banks, he said. He added that he would try to "hornswaggle" something.

Asked by the President if he thought he could get back one quarter of the \$900 million outstanding, he said, "not without weakening the capital structure of the banks," and "undoing much of what we have done".

The situation apparently is that the Comptroller feels that

the banks can safely retire their preferred stock and Mr. Jones disagrees. Whether Mr. Jones broached the subject to the National City Bank and the Chase National Bank as a question of retiring preferred stock or transferring it to private investors, remained in doubt.

Mr. Morgenthau told Mr. Jones his estimates of receipts and expenditures are further "out" than any other agency and that the RFC is not living up to its estimates.

Mr. Jones said that they put in inaccurate estimates on purpose because the Budget Director pays absolutely no attention to their estimates.

Mr. Morgenthau said that it was difficult to raise money on erroneous estimates and that it was not a very good way to run a business.

Mr. Jones said he thought he could run the RFC as well as anyone else, and that they didn't spend up to estimates because of their "efficiency" in holding expenses down. He insisted that the Treasury wasn't "hurt" since they discounted his estimates. The President commented that it hurt the Secretary's heart once a month -- gave him high blood pressure.

It developed that an agreement has been reached between the RFC and the Bureau of the Budget for their representatives to get together and reconcile figures, but Mr. Jones is of the opinion that a reconciliation is impossible.

Mr. Jones presented for the President's signature a letter asking Congress to increase the capital of the Commodity Credit Corporation by \$100 million so that they can borrow in the market on their cotton and repay the RFC. With that \$100 million there

would be something with which to forego interest and charges on cotton loans if and when necessary, and 1% could be saved in the market on cotton.

Mr. Morgenthau asked where they would get the \$100 million and Mr. Jones replied that this would come out of the RFC authorization -- just be a bookkeeping transaction.

After the President had signed it he directed, upon the suggestion of Mr. Morgenthau, that it be cleared through the Budget Bureau.

Mr. Jones said he would clear it through the Budget and send copies to everyone present.

Mr. McDonald said that in addition to the \$100 million cut in authorization for Title I insurance, (which he later preferred to make \$50 million) there might be some saving on the \$10 million Mutual Mortgage Insurance Fund. Insurance premiums and appraisal fees under this Title now amount to \$700 thousand held by the Treasury but unused by FHA. This will increase, but may not be available for expenditure.

Title I expires on April 1, and if extended will probably be for 10% insurance only. It is hoped to use \$50 million of the \$200 million as a revolving fund for new construction.

Mr. Morgenthau referred to a \$1 billion unused authorization for HOLC bonds and there was some discussion of the political advisability of asking for its repeal.

It was agreed that probably if it were presented to the Congress along with 15 or 20 other authorization repeal items,

it would not be so noticeable, and not be likely to lead to demand that HOLC applications be reopened.

The President saw a tremendous effect in repealing \$1,500,000,000 or \$2 billion of authorizations. He suggested that we check with the HOLC to see what they could do in the way of reducing personnel and administrative expenses.

Mr. Jones suggested that there be something said publicly about personnel reduction for the purpose of saving money that the "heat" might be taken off of those who discharge employees.

It was agreed that the AAA could not tell very well until the new law goes into effect just what they can contribute.

It was suggested that they might make a small contribution from the liquidation of supplies held in the Surplus Relief Corporation.

It was suggested that some \$23 million might be covered into the Treasury this fiscal year if certain legislation now pending goes through the Congress. The obligations for carrying into effect Section 32 of the AAA Act are about \$23 million less than the fund itself.

It was thought that some \$10 million or maybe \$15 million could be saved on operations, including \$6 million which will not be required for enforcement of the Bankhead Act.

The President suggested two places where the Department of Agriculture might save money, (1) in wild life and game refuges, and (2) in forestry.

Mr. Wallace said that at the last meeting of the Forest

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Reserve Commission they were urged to secure an appointment with the President for the purpose of asking for more money.

It was agreed that this was a matter of policy which should be discussed with the Commission.

There was some discussion of the land buying policy of the Government and the President raised the question of whether it might not be that land was being bought faster than it can be taken care of or reforested.

Mr. Wallace and Mr. Davis suggested the possibility of saving \$25 million out of Oscar Johnson's cotton pool. They thought it might be possible to liquidate the 642,000 bales of spot and a good part of the 800,000 bales of futures before the beginning of the cotton year on August 1st.

The President suggested that Johnson be asked to work out a schedule on how much he can pay back to the Treasury of the \$100 million authorization.

Mr. Ickes said they had only \$100,000 unexpended out of the new fund and \$14 million out of the old. Of this \$14 million, \$5 million or \$6 million is being held for a new War Department building. There will not be much in the way of cancellation. Most of the money is on loans and grants to States and Cities -- the only Federal money being on big projects which are under contract.

Mr. Morgenthau suggested that if PWA sold their own securities instead of having RFC sell them the money would come to the Treasury.

The President and Mr. Jones appeared to think the revolving

fund on those securities was advantageous.

The President said that on Thursday he will have a conference with the spending agencies and suggested that each of the lending agencies have its figures on possible savings in by Friday night to the Director of the Budget and that a statement be prepared and presented to the White House on Saturday. This would give him a chance to see what he could say on (1) revocation of authorizations, (2) turning back of recoverable assets, and (3) actual savings in expenditures, so that by Monday he might confer with Bob Doughton and Pat Harrison on taxes.

It was agreed that it would be all right for Mr. Jones to request Congress to withdraw permission from the states to tax shares of national banks held by the RFC.

It was suggested that the President, at his press conference 5 minutes later, state that the meeting was held for a checkup which comes normally every two months or so on the actual and contemplated figures of the lending agencies.

ITEMS ILLUSTRATIVE OF POSSIBLE SAVINGS IN THE  
BUDGET

A quick examination of the appropriation for Farm Credit Administration indicates that some of the following items may possibly be reduced. Legal limitations, however, and possible necessity of inter-exchange of funds have not been thoroughly examined because of the limitation of time.

The savings are of two kinds:

1. Items directly affecting the budget estimates in the remainder of the fiscal year 1936 and the fiscal year 1937.
2. Appropriations which are not expected to be utilized before June 30, 1937, and which, therefore, do not appear in the budget estimates.

I. Items directly affecting the budget.

1. There was available on December 31, 1935, more than 39 million dollars in crop and production loans which, according to the budget, was not needed. Repayments into this account before June 30, 1937, will increase this amount by more than three million dollars.
2. There was available in loans in stricken agricultural areas account on December 31, 1935, more than 6 million dollars which was apparently not needed. Repayments into this account before June 30, 1937, are expected to aggregate more than 14 million dollars.
3. In the account entitled "Emergency Crop Loans" 1932-33, there was available on December 31 more than 29 million dollars.

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4. On December 31, 1935, the investment of the Government in the capital stock of the Banks for Cooperatives was 134 million dollars. Loans by these banks as of the same date amounted to only 50 million dollars. Investment in Government and Government guaranteed securities were in excess of 81 million dollars. There would seem to be an amount of at least 50 million dollars in this investment in capital stock which could be retired without harm to the banks.

## II. Appropriations which may be reduced.

The RFC has made available 100 million dollars for loans to joint land stock banks. Since little of this money has ever been used for this purpose and estimates in the budget indicate that practically none will be used in the next fiscal year and a half, there would seem to be little reason why this appropriation could not be substantially reduced or entirely eliminated. This would not affect the budget directly but would reduce the amount of funds which might be expended in the future.

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There are similar possible savings in other of the lending agencies. For instance, the Treasury is authorized to make available to the Federal Reserve Banks approximately 139 million dollars for loans to industry. 15 million of this has been so used. It would seem possible to return to the Treasury perhaps 100 million of this amount.

NB It should be kept in mind that these illustrative examples have not been thoroughly checked for complete accuracy.

C O P Y

## BUREAU OF THE BUDGET

Washington

February 4, 1936.

## MEMORANDUM FOR THE SECRETARY.

Attached hereto is a statement dealing with the work of the Bureau of the Budget in connection with 16 of the Emergency Agencies (the 2 Export-Import Banks being counted as 1) brought under its jurisdiction with respect to administrative expenses by Executive Orders Nos. 7126, 7150 and 7174. The remaining agencies, namely, the Tennessee Valley Authority, the Agricultural Adjustment Administration, the Farm Credit Administration and the Federal Farm Mortgage Corporation were handled separately and no report is available with respect to them at this time.

With one exception all of the agencies cooperated fully in carrying out the purposes of the Executive Orders. This exception was the Reconstruction Finance Corporation. Despite several letters and many telephone calls requesting the Corporation to furnish the information asked by the Bureau of the Budget on which to arrive at its conclusions, they have not as yet complied. On one occasion Mr. Bell took up the matter with the President, who referred it immediately to Mr. Jones. The Corporation then forwarded a statement of costs for one month and apportionments for the year 1936, and Mr. Jones wrote the President telling him that the Bureau of the Budget had been furnished with all the information that was needed for budget purposes. This letter was referred to the Bureau of the Budget and Mr. Costello, the Executive Officer of the Corporation, informed that it would be necessary to furnish detailed information as outlined in various letters from the Bureau. Copies of two letters are attached. Calls were made on other occasions but the detailed information has never been submitted.

It is worthy of note that compared with the estimates submitted the Budget has reduced the estimates by \$17,669,816 for the fiscal year 1936 and \$12,979,045 for the fiscal year 1937. As above stated, this pertains to only 16 of the 20 agencies covered by the Executive Orders.

/s/ CHARLES H. FULLAWAY

Administrative Assistant.

Inclosures

C O P Y

Oct. 30, 1935.

Honorable Jesse H. Jones,  
Chairman, Reconstruction Finance Corporation,  
Washington, D. C.

My dear Mr. Jones:

Reference is made to my letter of August 24, 1935 and to my subsequent letter of September 23, 1935 requesting you to submit to this office certain detailed data regarding the personnel and organization of the Reconstruction Finance Corporation.

In reply to the above requests, I received your letter of October 7, 1935, giving actual expenses for August and September, 1935, and estimated expenditures for October and November, 1935, also estimates of expenditures for the fiscal year 1936 by objective classification.

On the basis of this letter your estimate of \$1,166,667 for October expenses was tentatively approved. In order that you may have funds to meet your administrative expenses for November, tentative approval is now given to your estimate for the period November 1 to November 30, 1935, inclusive, in the amount of \$1,166,667.

In order that a review may be made of your estimate for administrative expenses for the fiscal year 1936 of \$14,000,000. Will you kindly submit to this office not later than November 10, 1935, the organization charts, statement of functions, and justification of estimates as originally requested?

May I also call your attention to the fact that the time for printing the regular budget is rapidly approaching which means that the information requested in the Bureau of the Budget Circular No. 331 of June 29, 1935 must be in our hands on the same date, namely November 10. In this regard your attention is particularly called to Paragraph 6, Page 6, as follows:

"The estimates will be accompanied by such written statements, tables, charts, maps, outlines of prior, existing and proposed personnel organizations, etc., as may be necessary fully to explain and justify the estimates \* \* \*".

Very truly yours,

(Signed) D. W. BELL

Acting Director.

C O P Y

Nov. 20, 1935.

Honorable Jessie H. Jones,  
Chairman, Reconstruction Finance Corporation,  
Washington, D. C.

My dear Mr. Jones:

In my letter of October 30, 1935, I called your attention to the fact that the time for printing the regular budget was drawing near and requested that I be furnished with certain data relative to the operations of the Reconstruction Finance Corporation.

A portion of the described information was received with Mr. H. A. Mulligan's letter of November 12, 1935. Mr. Mulligan also transmitted a statement showing actual administrative expenses for the months of September and October, 1935, and estimated expenditures for November and December, 1935.

In my letter of October 30, 1935, I approved an allotment of \$1,166,667 for administrative expenses for the month of November. For the month of December 1935, the same amount, namely \$1,166,667 is hereby approved. These approvals are made in accordance with the authority contained in Executive Order No. 7126, as amended by Executive Order No. 7150 of August 19, 1935.

As the President has requested me to furnish him early in December with reports on all of the agencies placed under Budget control by Executive Orders, I would like to have the following information before November 30, 1935.

1. Organization charts.
2. Functional statements by divisions.
3. Personnel by divisions, numbers, grades, and salaries  
for the years 1937, 1936 and 1935.
4. 1937 estimates (green sheets).
5. Justifications of estimates.

Mr. Mulligan, your treasurer, and Mr. Costello, your assistant, have both been informed by telephone of the need for this information and it is possible that the material is now in the process of preparation. I would appreciate it if you would give this matter your attention and expedite its transmittal.

In the event that there is any doubt regarding the exact information required, I will be glad to assign a member of my staff to work with your representatives.

Very truly yours,

(Signed) D. W. BELL

Acting Director.

Statement showing estimates submitted by those agencies included in Executive Order No. 7126, 7150 and 7174 which were handled by the Division of Investigation, and the Budget action thereon.

Agency	Estimate Submitted	1936 Amount			1937 Amount			Administrative Reserve	Remarks
		Amount Disallowed	Approved (Subject to Administrative Reserve)	Administrative Reserve	Estimate Submitted	Amount Disallowed	Approved (Subject to Administrative Reserve)		
1. Export-Import Banks	\$ 115,578	\$ 5,578	\$ 110,000		\$ 122,190	122,190		Under present law these banks cease operations June 16, 1937. Recommended that the banks be discontinued and the E.F.C. Act amended in order that the banks functions be transferred to that Corporation.	
2. Home Owners' Loan Corporation	40,780,262	4,780,262	36,000,000	1,800,000	30,378,910	4,378,910	26,000,000	4,000,000	Lending operations cease June 16, 1936.
3. Federal Savings and Loan System	356,962		356,962		187,300	187,300			There is no basis law to continue after the \$356,962 has been spent which can it is planned to spend during 1936. Recommended that any effort to obtain additional funds to carry on promotional activities be opposed.
4. Federal Savings and Loan Insurance Corporation	811,662	81,662	130,000		292,020	55,000	237,000	87,000	
5. Home Loan Bank Board	969,579		969,579	25,000	1,262,019	100,000	1,162,019	50,000	
6. Federal Housing Administration	14,000,000	3,350,000	10,650,000		15,000,000	7,710,000	7,290,000		Title I of the National Housing Act ceases April 1, 1936.
7. Federal Deposit Insurance Corporation	2,602,616	52,616	2,550,000	100,000	2,550,310	50,310	2,500,000	100,000	
8. Federal Surplus Relief Corporation	837,430	30,105	806,535						The date of termination is uncertain. Recommended that its functions be transferred to Commodity Credit Corporation.
9. Commodity Credit Corporation	555,010	11,100	513,610		355,010	14,585	310,095		Date of termination April 1, 1937.
10. Electric Home and Farm Authority	205,000	85,500	117,500						Date of termination April 1, 1936. Recommended that any legislation to continue to be carefully considered before being approved.
11. National Recovery Administration	6,780,725	1,195,406	5,587,319						Date of termination April 1, 1936.
12. Federal Coordinator of Transportation	521,600		521,600						Date of termination June 17, 1936. Recommended that any legislation to continue its activities be opposed and that if any future studies are needed they be made by I.C.C. (approved by the President December 19, 1935)
13. Federal Emergency Relief Administration	18,676,000	1,026,000	17,650,000	1,000,000					Date of termination June 30, 1936.
14. Federal Emergency Administrator of Public Works	35,549,667	7,049,667	28,500,000						
15. Reconstruction Finance Corporation	14,000,000		14,000,000		12,172,290		12,172,290		lending activities Date of termination/February 1, 1937.
Total	135,995,751	17,669,616	118,326,135	2,925,000	62,920,109	12,979,015	49,941,354	4,257,000	

Note: Tennessee Valley Authority, Agricultural Adjustment Administration, Farm Credit Administration and Federal Farm Mortgage Corporation handled by Assistants to Director.

## OFFICE CORRESPONDENCE

DATE February 4, 1956.TO FILESSUBJECT: TELEPHONE CONVERSATION WITH

FROM

I. W. KnokeBANK OF FRANCE.

I called Mr. Cariguel at 11:40 a. m. today. I advised him that so far we had received applications for about \$5,000,000 worth of gold, all of which for Paris, with the exception of \$500,000 that was destined for Holland.

Cariguel stated that there was little excitement today in Paris, that the market was quieter, or to put it more correctly, thinner than yesterday. Most of today's activity had taken place in London where the British Equalization Fund bought francs. As a result of these transactions Cariguel thought they would lose to London what they were gaining in gold from New York. I referred to the fact that, to my surprise, sterling had yesterday gone above 75 and mentioned that according to my understanding the British had heretofore tried to hold the pound down to that figure. Cariguel replied that this had been their policy in the past, that yesterday the Fund had been out of the market and that the limit of 75 seemed to have been moved a little higher. Cariguel again referred with regret to the fact that under the present setup no gold could move from New York to London and added that if such arrangements could be made "It will be a great boon to us."

I next mentioned that, according to information which reached me here, the Bank of France was giving immediate franc advances against gold in New York. Cariguel confirmed this, stating that the money market was very tight, that as a result financing of such gold shipments by others than the Bank of France was extremely difficult, but that they were of course granting these

OFFICE CORRESPONDENCE

DATE February 4, 1936.

TO FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

BANK OF FRANCE.

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facilities only to the very large operators. I explained to him that the matter had come to my attention because some of the banks here figured their gold points below ours, not including interest in their charges. I had replied that for the sake of orderly procedure it had been this bank's policy always to include interest at bank rate because, otherwise gold points would have to be changed continuously as money market conditions changed. Cariguel agreed with me entirely. I mentioned to him that I had recently followed London gold quotations for spot as well as for forward delivery and had been perplexed yesterday suddenly to see the three months' rate go to a premium over spot compared with a small discount for one month's delivery. Cariguel agreed with me that there was no rhyme and reason for that, that they too found it difficult to understand the movements of the price of gold in London; the most reasonable explanation probably was this - that a few of the continental banks occasionally would buy in the London market (he emphasized that the Bank of France never did it) and that if these banks came into the market at a time when the British Fund was buying also, they had to compete with the latter and, as a result, were apt to push the price to a premium. At any rate, he added, the forward market was extremely thin and entirely a matter of negotiation.

LWK:EMC

February 4, 1936.

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The Interdepartmental Loan Committee met with the President at 2:15 P.M. today. Those present, in addition to the President, were:

Henry Morgenthau, Jr., Chairman of the Committee,  
Henry A. Wallace, Secretary of Agriculture,  
Harold L. Ickes, Secretary of the Interior,  
Jesse Jones, Chairman, Reconstruction Finance Corporation,  
Stewart McDonald, Federal Housing Administrator,  
Chester C. Davis, Agricultural Adjustment Administrator,  
C.B. Upham, Secretary of the Committee.

The President explained that he needs to secure between \$200 million and \$300 million from the lending and spending agencies of the Government, to be made available to the Treasury for the purpose of meeting increased expenditures occasioned by the payment of the bonus, the enactment of a Seed Loan Bill and other unbudgeted items. He explained that he is up against a political situation which makes unpopular any tax bill. If he had his way, the President said, he would provide for some kind of a processing tax, but he would also increase the income tax rates. The political problem presented is that of avoiding new taxes, if possible. For that reason a preliminary study has been made to see how much is needed. It is obvious that agriculture will need \$500 million to keep the farm policy going and put the new farm bill in operation. The President expressed the hope that it might be held down to \$490 million because that seems less than \$500 million, and because he would like to be in a position to say that the taxes for the new farm program are less than for the old.

The President said he was not in the least worried about asking Congress for the \$500 million because that is merely a replacement of former or present taxes. It is not an increase in expenditures. The total outflow will be the same, but the bonus, the Seed Loan Bill, which was passed yesterday, and other items relatively small in amount but large in total, increase the requirements on the Treasury. So, if a manufacturers floor tax or some other tax is enacted for the carrying out of the new farm program we will still need \$200 million or more over the original budget estimates of January. Mr. Morgenthau confirmed that between \$700 million and \$800 million new money would be needed, including the bonus.

If the Administration can avoid the imposition of new taxes it will be so much to the good politically. The only way to make things come out even for the Treasury on the January budget basis without new taxes and without additional borrowing is for the lending agencies and spending agencies of the Government to make savings. Even though some of the lending agencies get their money separately directly from the market, when they borrow it affects the borrowing possibilities of the Treasury. Some of the agencies such as the RFC finance themselves directly through the Treasury. Some agencies such as the FHA have no financing activities and are mainly spending agencies. The only savings they can make would appear to be in overhead or administrative expenses. If we can prevent the lending or spending in all the Government agencies of between \$200 million and \$300 million no new tax would be required, the President said, but only a substitute tax for the AAA unconstitutional processing tax. It would make a much simpler picture for the country, he said.

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It developed that the AAA is in the 1937 budget for \$547 million and it was suggested that the new program call for \$10 million less than the old.

The President raised the question of where savings can be made and referred to the fact that the Treasury had made a quick survey of one of the lending agencies -- the FCA -- and had made some suggestions of possible savings in the accounts of that agency. The President then read a memorandum entitled "Items Illustrative of Possible Savings in the Budget", attached. It lists a number of suggestions for cancellation of spending authorizations and asset recoveries in FCA and for a return to the Treasury of \$100 million now available to Federal Reserve Banks for industrial loans. The President then read a memorandum prepared by Charles H. Fullaway, Administrative Assistant of the Bureau of the Budget, carrying a statement dealing with the work of the Bureau of the Budget in connection with 16 of the emergency agencies brought under its jurisdiction. The statement showed that compared with the estimates submitted to the budget by 15 of these agencies, reductions of \$17,600,000 for the fiscal year 1936 and \$12,900,000 for the fiscal year 1937 had been effected. The statement also pointed out that there had been a complete lack of cooperation with the Bureau of the Budget on the part of the RFC.

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The President then referred to a table showing the number of civil employees of the Federal Government and said that the total

employees of the 6 agencies following -- RFC, FCA, HOLC, FHA, PWA and AAA -- had increased month by month from 43,633 in January, 1935 to 50,570 in December, 1935.

The question now is, the President said, where can we save the money. We must do it. He asked for any bright ideas.

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The President replied that that was not enough -- he had to have definite figures.

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payments, the President wanting to know why they couldn't pay it back.

Mr. Jones explained that the banks are unable to induce private investors to take it over and that if they retire it they will have unsound capital structures.

Mr. Morgenthau interposed to say that the Comptroller had reported that some 100 banks could safely pay back in excess of \$100 million.

Mr. Jones said that this included \$50 million a piece from the National City Bank of New York and the Chase National Bank and he had talked both to Aldrich and Perkins and they did not want to pay the RFC. Mr. Morgenthau expressed the opinion they would be willing to retire it.

When pressed on the matter of part payment, Mr. Jones thought they might pay off \$10 million each. He said he had it in mind to get back a substantial amount during the year from all banks. He was insistent that no one tell him how to do his job but rather to tell him what is wanted and let him do it his own way. Mr. Jones said banks were panicky to retire stock after Crowley's New Orleans speech. Chase and City can't retire theirs and have sound banks, he said. He added that he would try to "hornswaggle" something.

Asked by the President if he thought he could get back one quarter of the \$900 million outstanding, he said, "not without weakening the capital structure of the banks" and "undoing much of what we have done".

The situation apparently is that the Comptroller feels that

the banks can safely retire their preferred stock and Mr. Jones disagrees. Whether Mr. Jones broached the subject to the National City Bank and the Chase National Bank as a question of retiring preferred stock or transferring it to private investors, remained in doubt.

Mr. Morgenthau told Mr. Jones his estimates of receipts and expenditures are further "out" than any other agency and that the RFC is not living up to its estimates.

Mr. Jones said that they put in inaccurate estimates on purpose because the Budget Director pays absolutely no attention to their estimates.

Mr. Morgenthau said that it was difficult to raise money on erroneous estimates and that it was not a very good way to run a business.

Mr. Jones said he thought he could run the RFC as well as anyone else, and that they didn't spend up to estimates because of their "efficiency" in holding expenses down. He insisted that the Treasury wasn't "hurt" since they discounted his estimates. The President commented that it hurt the Secretary's heart once a month -- gave him high blood pressure.

It developed that an agreement has been reached between the RFC and the Bureau of the Budget for their representatives to get together and reconcile figures, but Mr. Jones is of the opinion that a reconciliation is impossible.

Mr. Jones presented for the President's signature a letter asking Congress to increase the capital of the Commodity Credit Corporation by \$100 million so that they can borrow in the market

on their cotton and repay the RFC. With that \$100 million there would be something with which to forego interest and charges on cotton loans if and when necessary, and 1% could be saved in the market on cotton.

Mr. Morgenthau asked where they would get the \$100 million and Mr. Jones replied that this would come out of the RFC authorization -- just be a bookkeeping transaction.

After the President had signed it he directed, upon the suggestion of Mr. Morgenthau, that it be cleared through the Budget Bureau.

Mr. Jones said he would clear it through the Budget and send copies to everyone present.

Mr. McDonald said that in addition to the \$100 million cut in authorization for Title I insurance, (which he later preferred to make \$50 million) there might be some saving on the \$10 million Mutual Mortgage Insurance Fund. Insurance premiums and appraisal fees under this Title now amount to \$700 thousand held by the Treasury but unused by FHA. This will increase, but may not be available for expenditure.

Title I expires on April 1, and if extended will probably be for 10% insurance only. It is hoped to use \$50 million of the \$200 million as a revolving fund for new construction.

Mr. Morgenthau referred to a \$1 billion unused authorization for HOLC bonds and there was some discussion of the political advisability of asking for its repeal.

It was agreed that probably if it were presented to the Congress along with 15 or 20 other authorization repeal items,

it would not be so noticeable, and not be likely to lead to demand that HOLC applications be reopened.

The President saw a tremendous effect in repealing \$1,500,000,000 or \$2 billion of authorizations. He suggested that we check with the HOLC to see what they could do in the way of reducing personnel and administrative expenses.

Mr. Jones suggested that there be something said publicly about personnel reduction for the purpose of saving money that the "heat" might be taken off of those who discharge employees.

It was agreed that the AAA could not tell very well until the new law goes into effect just what they can contribute.

It was suggested that they might make a small contribution from the liquidation of supplies held in the Surplus Relief Corporation.

It was suggested that some \$23 million might be covered into the Treasury this fiscal year if certain legislation now pending goes through the Congress. The obligations for carrying into effect Section 32 of the AAA Act are about \$23 million less than the fund itself.

It was thought that some \$10 million or maybe \$15 million could be saved on operations, including \$6 million which will not be required for enforcement of the Bankhead Act.

The President suggested two places where the Department of Agriculture might save money, (1) in wild life and game refuges, and (2) in forestry.

Mr. Wallace said that at the last meeting of the Forest

Reserve Commission they were urged to secure an appointment with the President for the purpose of asking for more money.

It was agreed that this was a matter of policy which should be discussed with the Commission.

There was some discussion of the land buying policy of the Government and the President raised the question of whether it might not be that land was being bought faster than it can be taken care of or reforested.

Mr. Wallace and Mr. Davis suggested the possibility of saving \$25 million out of Oscar Johnson's cotton pool. They thought it might be possible to liquidate the 642,000 bales of spot and a good part of the 200,000 bales of futures before the beginning of the cotton year on August 1st.

The President suggested that Johnson be asked to work out a schedule on how much he can pay back to the Treasury of the \$100 million authorization.

Mr. Ickes said they had only \$100,000 unexpended out of the new fund and \$14 million out of the old. Of this \$14 million, \$5 million or \$6 million is being held for a new War Department building. There will not be much in the way of cancellation. Most of the money is on loans and grants to States and Cities -- the only Federal money being on big projects which are under contract.

Mr. Morgenthau suggested that if PWA sold their own securities instead of having RFC sell them the money would come to the Treasury.

The President and Mr. Jones appeared to think the revolving

fund on those securities was advantageous.

The President said that on Thursday he will have a conference with the spending agencies and suggested that each of the lending agencies have its figures on possible savings in by Friday night to the Director of the Budget and that a statement be prepared and presented to the White House on Saturday. This would give him a chance to see what he could say on (1) revocation of authorizations, (2) turning back of recoverable assets, and (3) actual savings in expenditures, so that by Monday he might confer with Bob Doughton and Pat Harrison on taxes.

It was agreed that it would be all right for Mr. Jones to request Congress to withdraw permission from the states to tax shares of national banksheld by the RFC.

It was suggested that the President, at his press conference 5 minutes later, state that the meeting was held for a checkup which comes normally every two months or so on the actual and contemplated figures of the lending agencies.

ITEMS ILLUSTRATIVE OF POSSIBLE SAVINGS IN THE  
BUDGET

A quick examination of the appropriation for Farm Credit Administration indicates that some of the following items may possibly be reduced. Legal limitations, however, and possible necessity of inter-exchange of funds have not been thoroughly examined because of the limitation of time.

The savings are of two kinds:

1. Items directly affecting the budget estimates in the remainder of the fiscal year 1936 and the fiscal year 1937.
2. Appropriations which are not expected to be utilized before June 30, 1937, and which, therefore, do not appear in the budget estimates.

I. Items directly affecting the budget.

1. There was available on December 31, 1935, more than 39 million dollars in crop and production loans which, according to the budget, was not needed. Repayments into this account before June 30, 1937, will increase this amount by more than three million dollars.
2. There was available in loans in stricken agricultural areas account on December 31, 1935, more than 6 million dollars which was apparently not needed. Repayments into this account before June 30, 1937, are expected to aggregate more than 14 million dollars.
3. In the account entitled "Emergency Crop Loans" 1932-33, there was available on December 31 more than 29 million dollars.

- 2 -

4. On December 31, 1935, the investment of the Government in the capital stock of the Banks for Cooperatives was 134 million dollars. Loans by these banks as of the same date amounted to only 50 million dollars. Investment in Government and Government guaranteed securities were in excess of 81 million dollars. There would seem to be an amount of at least 50 million dollars in this investment in capital stock which could be retired without harm to the banks.

## II. Appropriations which may be reduced.

The RFC has made available 100 million dollars for loans to joint land stock banks. Since little of this money has ever been used for this purpose and estimates in the budget indicate that practically none will be used in the next fiscal year and a half, there would seem to be little reason why this appropriation could not be substantially reduced or entirely eliminated. This would not affect the budget directly but would reduce the amount of funds which might be expended in the future.

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There are similar possible savings in other of the lending agencies. For instance, the Treasury is authorized to make available to the Federal Reserve Banks approximately 139 million dollars for loans to industry. 15 million of this has been so used. It would seem possible to return to the Treasury perhaps 100 million of this amount.

NB It should be kept in mind that these illustrative examples have not been thoroughly checked for complete accuracy.

C O P Y

## BUREAU OF THE BUDGET

Washington

February 4, 1936.

## MEMORANDUM FOR THE SECRETARY.

Attached hereto is a statement dealing with the work of the Bureau of the budget in connection with 16 of the Emergency Agencies (the 2 Export-Import Banks being counted as 1) brought under its jurisdiction with respect to administrative expenses by Executive Orders Nos. 7128, 7150 and 7174. The remaining agencies, namely, the Tennessee Valley Authority, the Agricultural Adjustment Administration, the Farm Credit Administration and the Federal Farm Mortgage Corporation were handled separately and no report is available with respect to them at this time.

With one exception all of the agencies cooperated fully in carrying out the purposes of the Executive Orders. This exception was the Reconstruction Finance Corporation. Despite several letters and many telephone calls requesting the Corporation to furnish the information asked by the Bureau of the Budget on which to arrive at its conclusions, they have not as yet complied. On one occasion Mr. Bell took up the matter with the President, who referred it immediately to Mr. Jones. The Corporation then forwarded a statement of costs for one month and apportionments for the year 1936, and Mr. Jones wrote the President telling him that the Bureau of the Budget had been furnished with all the information that was needed for budget purposes. This letter was referred to the Bureau of the Budget and Mr. Costello, the Executive Officer of the Corporation, informed that it would be necessary to furnish detailed information as outlined in various letters from the Bureau. Copies of two letters are attached. Calls were made on other occasions but the detailed information has never been submitted.

It is worthy of note that compared with the estimates submitted the Budget has reduced the estimates by \$17,669,616 for the fiscal year 1936 and \$12,979,045 for the fiscal year 1937. As above stated, this pertains to only 16 of the 20 agencies covered by the Executive Orders.

/s/ CHARLES H. FULLAWAY

Administrative Assistant.

Inclosures

C O P Y

Oct. 30, 1935.

Honorable Jesse H. Jones,  
Chairman, Reconstruction Finance Corporation,  
Washington, D. C.

My dear Mr. Jones:

Reference is made to my letter of August 24, 1935 and to my subsequent letter of September 25, 1935 requesting you to submit to this office certain detailed data regarding the personnel and organization of the Reconstruction Finance Corporation.

In reply to the above requests, I received your letter of October 7, 1935, giving actual expenses for August and September, 1935, and estimated expenditures for October and November, 1935, also estimates of expenditures for the fiscal year 1936 by objective classification.

On the basis of this letter your estimate of \$1,166,667 for October expenses was tentatively approved. In order that you may have funds to meet your administrative expenses for November, tentative approval is now given to your estimate for the period November 1 to November 30, 1935, inclusive, in the amount of \$1,166,667.

In order that a review may be made of your estimate for administrative expenses for the fiscal year 1936 of \$14,000,000. Will you kindly submit to this office not later than November 10, 1935, the organization charts, statement of functions, and justification of estimates as originally requested?

May I also call your attention to the fact that the time for printing the regular budget is rapidly approaching which means that the information requested in the Bureau of the Budget Circular No. 351 of June 29, 1935 must be in our hands on the same date, namely November 10. In this regard your attention is particularly called to Paragraph 6, Page 6, as follows:

"The estimates will be accompanied by such written statements, tables, charts, maps, outlines of prior, existing and proposed personnel organizations, etc., as may be necessary fully to explain and justify the estimates \* \* \*".

Very truly yours,

(Signed) D. W. BELL

Acting Director.

C O P Y

Nov. 20, 1935.

Honorable Jessie H. Jones,  
Chairman, Reconstruction Finance Corporation,  
Washington, D. C.

My dear Mr. Jones:

In my letter of October 30, 1935, I called your attention to the fact that the time for printing the regular budget was drawing near and requested that I be furnished with certain data relative to the operations of the Reconstruction Finance Corporation.

A portion of the described information was received with Mr. H. A. Mulligan's letter of November 12, 1935. Mr. Mulligan also transmitted a statement showing actual administrative expenses for the months of September and October, 1935, and estimated expenditures for November and December, 1935.

In my letter of October 30, 1935, I approved an allotment of \$1,166,667 for administrative expenses for the month of November. For the month of December 1935, the same amount, namely \$1,166,667 is hereby approved. These approvals are made in accordance with the authority contained in Executive Order No. 7126, as amended by Executive Order No. 7150 of August 19, 1935.

As the President has requested me to furnish him early in December with reports on all of the agencies placed under Budget control by Executive Orders, I would like to have the following information before November 30, 1935.

1. Organization charts.
2. Functional statements by divisions.
3. Personnel by divisions, numbers, grades, and salaries for the year 1937, 1936 and 1935.
4. 1937 estimates (green sheets).
5. Justifications of estimates.

Mr. Mulligan, your treasurer, and Mr. Costello, your assistant, have both been informed by telephone of the need for this information and it is possible that the material is now in the process of preparation. I would appreciate it if you would give this matter your attention and expedite its transmittal.

In the event that there is any doubt regarding the exact information required, I will be glad to assign a member of my staff to work with your representatives.

Very truly yours,

(Signed) D. W. BELL

Acting Director.

Statement showing estimates submitted by those agencies included in Executive Orders  
No. 7126, 7150 and 7171 which were handled by the Division of Investigation, and the Budget section thereon.

Agency	1936				1937				Remarks
	Estimate Submitted	Amount Disallowed	Amount Approved (Subject to Administrative Reserves)	Administrative Reserves	Estimate Submitted	Amount Disallowed	Amount Approved (Subject to Administrative Reserves)	Administrative Reserves	
1. Export-Import Banks	\$ 115,578	\$ 5,378	\$ 110,000		\$ 122,160	122,160			Under present law these banks cease operations June 16, 1937. Recommended that the banks be discontinued and the E.F.C. Act amended in order that the banks functions be transferred to that Corporation.
2. Home Owners' Loan Corporation	40,780,262	4,780,262	36,000,000	1,800,000	30,378,910	4,378,910	26,000,000	4,000,000	Lending operations cease June 16, 1936.
3. Federal Savings and Loan System	356,962		356,962		487,300	487,300			There is no basic law to continue after the \$356,962 has been spent which was it is planned to spend during 1936. Recommended that any effort to obtain additional funds to carry on promotional activities be opposed.
4. Federal Savings and Loan Insurance Corporation	214,662	214,662	130,000		292,020	55,020	237,000	87,000	
5. Home Loan Bank Board	969,579		969,579	25,000	1,262,019	100,000	1,162,019	50,000	
6. Federal Housing Administration	14,000,000	3,350,000	10,650,000		15,000,000	7,740,000	7,260,000		Title I of the National Housing Act ceases April 1, 1936.
7. Federal Deposit Insurance Corporation	2,602,646	52,646	2,550,000	100,000	2,550,340	50,340	2,500,000	100,000	
8. Federal Surplus Relief Corporation	837,830	30,465	806,555						The date of termination is uncertain. Recommended that its functions be transferred to Commodity Credit Corporation.
9. Commodity Credit Corporation	355,040	11,400	343,640		355,040	44,085	310,955		Date of termination April 1, 1937.
10. Electric Home and Power Authority	205,000	85,500	117,500						Date of termination April 1, 1936. Recommended that any legislation to continue to be carefully considered before being approved.
11. National Recovery Administration	6,780,725	1,193,406	5,587,319						Date of termination April 1, 1936.
12. Federal Coordinator of Transportation	524,600		524,600						Date of termination June 17, 1936. Recommended that any legislation to continue its activities be opposed and that if any future studies are needed they be made by I.C.C. (approved by the President December 19, 1935)
13. Federal Emergency Relief Administration	18,676,000	1,026,000	17,650,000	1,000,000					Date of termination June 30, 1936.
14. Federal Emergency Administrator of Public Works	35,549,667	7,049,667	28,500,000						
15. Reconstruction Finance Corporation	14,000,000		14,000,000		12,472,290		12,472,290		lending activities Date of termination/February 1, 1937.
Total	135,995,751	17,669,616	118,326,135	2,925,000	62,920,469	12,979,046	49,941,364	4,237,000	

Note: Tennessee Valley Authority, Agricultural Adjustment Administration, Farm Credit Administration and Federal Farm Mortgage Corporation handled by Assistants to Director.

## FEDERAL GOVERNMENT, NUMBER OF CIVIL EMPLOYEES

	December 31, 1931	December 31, 1932	December 31, 1933	December 31, 1934	December 31, 1935	Relief	Net for Dec., 1935, Excluding Relief
Reconstruction Finance Corporation		1,948	3,234	3,409	3,549		
Farm Credit Administration	A/ 351	A/ 233	7,522	6,907	6,818		
Home Owners' Loan Corporation		B/ 88	6,968	20,099	19,958		
Federal Housing Administration				2,237	3,818		
Public Works Administration			2,759	5,426	9,840		
Agricultural Adjustment Administration			C/	6,397	6,587		
Total - Above Agencies	351	2,269	20,483	44,475	50,570		
Total Federal Civil Personnel Including Executive Departments, Independent Establishments and Other Federal Agencies	606,368	564,103	591,675	672,273	815,789	152,830	662,958

## ANALYSIS BY MONTHS FOR THE YEAR 1935

	January	February	March	April	May	June	July	August	September	October	November	December
Reconstruction Finance Corporation	3,407	3,408	3,408	3,477	3,538	3,559	3,577	3,602	3,595	3,588	3,568	3,549
Farm Credit Administration	7,072	7,202	6,895	6,952	6,812	6,224	5,762	7,226	7,229	7,192	7,053	6,818
Home Owners' Loan Corporation	18,566	18,738	19,030	19,066	19,372	19,588	19,886	19,891	20,072	20,078	19,978	19,958
Federal Housing Administration	2,395	2,519	2,708	2,822	2,984	3,095	3,230	3,437	3,560	3,688	3,776	3,818
Public Works Administration	5,707	6,033	6,086	6,235	6,471	6,729	7,050	7,474	8,039	9,387	9,766	9,840
Agricultural Adjustment Administration	6,486	6,993	7,358	7,690	7,874	6,276	6,379	6,480	6,541	6,573	6,646	6,587
Total - Above Agencies	43,633	44,893	45,485	46,242	47,051	45,471	45,884	48,110	49,036	50,506	50,787	50,570
Total Federal Civil Personnel Including Executive Departments, Independent Establishments and Other Federal Agencies	674,997	680,546	684,918	709,977	712,112	717,712	729,769	770,128	800,874	804,678	800,079	815,789

A/ Federal Farm Board.

B/ Federal Home Loan Bank Board.

C/ Figures carried in Department of Agriculture statement prior to 1934. Segregation not available.

Meeting - To obtain funds to continue the Works Progress Administration until July 1st, by transfer from other agencies, rather than by asking for a new appropriation.

Present -

The Secretary

Daniel Bell

Lyle T. Alverson

Aubrey Williams  
Corrington Gill

George Haas  
Sidney Tickton  
Edna Lonigan

In the following report agencies are mentioned in order of the amount of time given to discussion of them.

February 5, 1936  
at the home of the Secretary

- 2 -

The conclusion of the meeting was Mr. Gill's statement that the Works Progress Administration would need only \$250,000,000 to operate until July 1st, provided all other agencies under the Works Program provided the share of employment in the spring months that they have agreed to provide.

The WPA would need \$300,000,000 if the other agencies do not increase employment in the spring.

This total assumes a gradual decline in the total amount provided, from April on, beginning in the south and going north.

Estimated employment and expenditures are as follows:

	<u>WPA</u> <u>Employment</u>	<u>WPA</u> <u>Expenditures</u>
February	3,000,000	\$ 195,000,000
March	3,100,000	201,000,000
April	2,800,000	182,000,000
May	2,600,000	169,000,000
June	2,400,000	156,000,000

\* \* \* \* \*

WPA expenditures in January were \$188,000,000.

The estimate of \$309,000,000 given by Mr. Hopkins, was based on the estimate of employment above, with the lesser of the two estimates of employment to be provided by other Works Program agencies in the spring. It virtually agrees with Mr. Gill's second estimate.

\* \* \* \* \*

Mr. Gill stated that \$250,000,000 would not provide full employment, because reserves had to be set up against projects when work was undertaken. He said that that prevented switching of funds to make the most of money available.

Mr. Bell pointed out that projects were being finished all the time, and adjustments could be made in setting up new projects. Also funds were sometimes available as a surplus from projects, where they cost less than was anticipated, or where they were closed down because of need for labor for other Works Program agencies.

- 3 -

Miss Lonigan mentioned that each reserve set up against a project was a reserve of employment, as well as of funds. It meant that so much employment was provided during a given number of the coming months. Without this reserve, projects would be undertaken without reserves (as in CWA) and then it would seem necessary suddenly to find additional funds to complete them or even to liquidate them. With 165,000 projects it should be possible to manoeuver reserves so that projects would terminate at varying dates.

Mr. Gill said they would have to plan to liquidate six weeks or more ahead, if they were to liquidate on July 1st. Otherwise, if liquidation began as of July 1st, they would have to operate an average of six weeks beyond that date.

\* \* \* \* \*

The Secretary said he understood WPA could run with present funds until May 1st.

Mr. Gill stated that the WPA would be "up against the gun" by February 28th. They were at their limit now in six States.

In five States and New York City, new funds for projects would run out about April 1st. The average for the country would be April 7th. It was not clear whether this meant free funds for new projects, or all projects, including employment covered by reserves.

WPA estimated that they had obligated about \$600,000,000, of which \$300,000,000 had been actually spent. (The other \$300,000,000 is reserves to provide for continuance of present projects?)

Mr. Gill estimated that he had about \$350,000,000 unencumbered. Mr. Bell's estimate of their unencumbered balance was somewhat higher.

The Secretary pointed out that WPA still had \$100,000,000 left in the RFC which they had not yet drawn out.

\* \* \* \* \*

The rest of the discussion concerned possibilities of obtaining funds for WPA by transfer from other agencies.

There was no discussion of the possibility of reducing WPA estimates of funds needed.

3-A

The discussion of WPA funds was not wholly clear, but apparently the account was as follows:

	<u>Millions</u>	<u>Millions</u>
Total Allotments	\$ 1,162	
	February account	February to June
Spent*	\$ 300	-
Obligated*	300	\$ 300
Unobligated*	350	<u>350</u>
		100 - RFC
		250 Request for new fund
		<u>\$ 1,000</u>

\*Approximate

- 4 -

PWA - Loans and Grants  
Housing

Mr. Alverson stated that these funds were entirely committed.

Mr. Gill said that very little was committed.

Mr. Alverson pointed out that the question turned on whether the President, in his order that all work must be under contract by December 15th, meant literally that all contracts must be let by that date, or whether he took the realistic test of whether the work was really under way. Building contracts were let separately for demolition, digging foundations, building and decorating the interior were frequently let somewhat later than contracts for foundations, but that presumably the first set of contracts were a commitment for the whole undertaking.

Mr. Gill then said that many of these housing projects were in the courts on injunction proceedings, and indicated that money for projects against which injunctions had been entered was available for immediate transfer.

Mr. Williams mentioned that there would be strong popular objection if any more housing projects were rescinded now.

The Secretary mentioned Mr. Icke's statement to the President, that 95 percent of the housing program was under contract. The Secretary said that that statement should be contradicted only with evidence.

Puerto Rico Reconstruction Administration

Mr. Alverson stated that the PRRA had been given \$40,000,000. At the Hyde Park conference \$15,000,000 had been rescinded, but Dr. Gruening had gone personally to the President and had had \$10,000,000 restored.

Miss Lonigan stated that she had gone to Puerto Rico in the summer of 1934 on an official committee to study the plan under which the PRRA has since started operating. That committee had found that the plan and type of administration proposed were very similar to the work of the Resettlement Administration (except for the latter's land use program). In addition, the proposed plan would have to meet very serious political difficulties. These difficulties had already risen within and without the PRRA, and both on the Island and in Congress. The opposition to the plan on the Island is very bitter. The opponents are at present taking their protests to Congress.

Mr. Williams also mentioned that there was internal dissension in connection with the program.

Miss Lonigan stated that the PRRA really had \$50,000,000 with which to work. Mr. Alverson questioned whether the amount was so high.\*

Mr. Alverson stated that a bill had been introduced into Congress authorizing the expenditures of these funds over a five year period, because it would not be possible to spend them within the allotted time.

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\*Total allocations (warrants) to Puerto Rico from Works Program funds, totalled \$49,752,007.30, according to the report of the Secretary included in the President's report to Congress on the Emergency Relief Appropriation Act of 1935 - January 9, 1936 (p.29).

Puerto Rico - President Allocations  
(Report of the President --- p.142)

Agriculture - Forest Service	\$ 7,532.00
Interior - Puerto Rico Reconstruction Administration	
Administrative	815,830.41
Forestation	994,140.00
Grants to States, etc.	4,149,600.00
Housing	2,200,000.00
Rural Rehabilitation	26,612,440.00
Work Relief Projects	306,740.00
Labor - Employment Service	24,000.00
Treasury - Administrative Expenses	195,514.89
Emergency Conservation Work	860,000.00
Employees Compensation Commission	30,000.00
Federal Emergency Relief Administration	
Administrative Expenses	580,000.00
Grants to States, etc.	12,201,210.00
Public Works Administration - Housing	<u>775,000.00</u>
	\$ 49,752,007.30

The largest item other than the PRRA, the \$12,781,000 for relief, is also actually being administered by the PRRA.

Resettlement Administration

Mr. Bell quoted the following figures:

Allocated	\$ 184,779,000
Obligated	44,500,000
Spent	27,876,000
Administration	10,700,000
Relief	3,700,000
Rural rehabilitation	13,000,000

Mr. Bell stated that it would be impossible for Resettlement to spend all its funds by June 30th. Mr. Tugwell had informed the President that, if the President approved, he, Mr. Tugwell, preferred to spend the money more slowly, through December 31, 1936, provided he could be sure of obtaining from the next appropriation the money he released before July 1st.

Mr. Bell estimated that Resettlement could spend at most \$100,000,000, if spending flattened out at the rate of \$11,000,000 a month for the rest of the fiscal year. That would leave \$84,000,000 to be taken back.

\* \* \* \* \*

Most of those present assumed that funds could be transferred from Resettlement projects to the general fund.

It was suggested money be transferred from Resettlement housing programs, leaving to Resettlement the chance of getting funds for next year.

Mr. Bell said that no one should be permitted to go ahead with any program that obligated the government to spend money, unless the President had the money.

The Secretary said that it was not fair to reassign funds, and let Resettlement think they were going to get the funds back later. They ought to know where they stood. If building was going to stop, it ought to be stopped at the foundation.

Mr. Alverson pointed out that the government was under no obligation to complete contracts. It need only reimburse the contract-holder for damages. If no work had been begun there would probably be no damages.

Mr. Williams stated that there would be strong objections from the local communities to stopping work on some of the housing developments. Mr. Alverson said there were two opinions in the local communities, and frequently the opposition was stronger than the approval.

\* \* \* \* \*

Mr. Bell stated that Resettlement spent five millions for rural relief in February. At that rate his total of \$28,000,000 for relief would soon be exhausted.

Mr. Williams said that FERA - WPA had not yet turned over all rural families to Mr. Tugwell, but they planned to close all rural cases on March 1st.

#### Commerce

The principal project in Commerce was \$9,881,000 for the census of business.

Mr. Alverson mentioned the strong feeling in the Department of Commerce and within the Census Bureau, that the project was not worth anything. The Bureau had obtained good counters in some cities but in others they had not been able to obtain qualified people.

Miss Lonigan asked why it would not be better to limit the study, make an adequate analysis in those cities and towns where they had good counters and let the rest go. She mentioned that these very large studies frequently got out of line because they proved unmanageable with the supervision available.

Mr. Gill said that adequate help was now available for counters, and that it was quite impossible to make a census that was less than complete; it was impossible to choose sample areas and concentrate on them. Miss Lonigan stated that the large studies were often never properly analyzed, and produced only a large quantity of 3x5 cards.

In obtaining counters, Mr. Gill said there were no exceptions from relief requirements (except the ten percent exemption) in cities of over 250,000. There was a 20 percent exemption in cities of 150,000 - 250,000; 30 percent in cities of 100 - 150,000, and 35 percent below that

February 5, 1936.

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A group met in the office of the Secretary of the Treasury at 9:30 A.M. to discuss budget savings by lending agencies.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,  
Edward F. Bartelt, Accountant, Accounts & Deposits,  
Charles H. Fullaway, Administrative Assistant, Bureau of Budget,  
Wm. H. McReynolds, Administrative Assistant to the Secretary,  
C.V. Oppen, Assistant General Counsel,  
Herbert E. Gaston, Assistant to the Secretary,  
Wesley Lindow, Research Assistant,  
Henry C. Murphy, Research and Statistics Assistant,  
C.B. Upham, Assistant to the Secretary.

Mr. Upham read the minutes of the meeting of the Interdepartmental Loan Committee with the President yesterday.

Mr. Morgenthau suggested that the information which the President wants given to the Bureau of the Budget by lending agencies not later than Friday night be gotten from those agencies if necessary but that we do as much of it ourselves as we can.

Mr. Morgenthau asked Mr. Bartelt what the cost per year for the next 9 years of the bonus would be and Mr. Bartelt replied that the Treasury figure is \$138 million.

There is some difference of opinion as to how the estimate should be figured, the Veterans Administration having a figure of \$152 million, but since it is a Treasury job it seems reasonable to accept the Treasury figure.

Mr. Fullaway reported that Mr. McFarland of the General

Accounting Office was here yesterday and that in Mr. Fullaway's opinion Mr. McFarland will recommend to Comptroller General McCarl that he reverse his decision with respect to the necessity for immediate appropriation for the \$507 million payable to the life insurance fund and rule that an immediate appropriation is necessary.

Mr. Morgenthau said that he would hold a meeting tonight on the \$4,800,000,000 fund.

Mr. Morgenthau said that in negotiating with the lending agencies during the next couple of days that the Treasury work through the Bureau of the Budget as much as possible.

February 5, 1936

Again conferring with the Secretary today on the AAA program and methods of financing it were Secretary Wallace, Chester Davis, Stanley Reed, Mr. Haas, Mr. Turney, Mr. Savoy, Dr. Ezekiel, Mr. Oliphant, Mr. Wideman and Mr. Heller.

Mr. Morgenthau invited one of the lawyers to speak.

Stanley Reed opened the discussion by asking, "What shall we talk about first, the message or the acts? It seems to me we will have difficulty in getting very far on policy matters. On the drafting of the bills, it's just a question of going over and over and meeting every contingency as it comes up." Mr. Reed asked him if he wanted to start the ball rolling and Mr. Reed replied, "I would not know what to say, except as far as the message is concerned." Mr. Savoy thought it should be tied in to what the President has said heretofore. "We want to get what you have on that, Mr. Morgenthau," he said. "You had, the other day, what the President said about last August." Mr. Oliphant explained as follows: "The thing he said in his September summary of the budget is what Mr. Savoy means." Mr. Reed added, "Plus what was said the other day. It looks to me like we ought to tie in what is said now with what has been said before, to show continuity of thought on the tax bill."

Secretary Wallace asked if there was a draft available of what had been agreed on in the main, "And are we far enough along on a possible draft so that it would be safe for the President to send this up?" Mr. Reed thought that would be possible in the next day or two. Secretary Morgenthau inquired if anybody had the message written out at all and Mr. Weidman said, "Yes; I have." To which Mr. Savoy replied, "I have not seen that," so Mr. Reed read the draft prepared by Justice. (Copy attached; see Exhibit I.) He added after reading the last paragraph, "We cleared the last paragraph with Agriculture."

Continuing, Mr. Reed said, "I did not understand that, except in relation to the whole problem of floor stock taxes, which is a separate thing in and of itself. I don't know whether any of us have reached a conclusion on that. I have not. It is still a muddle to us." Mr. Savoy expressed the opinion that it goes further than the floor stock tax problem; it goes to the exporters."

Mr. Reed agree, but said, "But I thought the moral obligation of the bill that is now pending up in Congress took care

of that. You remember, Herman (Mr. Oliphant), you and I talked about it and I talked to Marvin Jones." Mr. Heller explained that it does not take care of any instances where the tax was paid where the goods were bought; in other words, the taxes for which were impounded.

According to Dr. Ezekiel, "There is a good reason why this should accompany the "windfall" legislation. If you take back retroactively all of the tax they should have paid, without at the same time putting them on notice that you are prepared to allow refunds for the stocks they still hold in hand, you will have all the trades disorganized."

Mr. Reed said, "I think it is a big problem -- the whole floor tax question -- but I thought we had taken care of extra refunds by the "moral obligation" bill." Dr. Ezekiel replied, "Only in so far as taxes have been paid. Since this will amount to some sums of money not paid in as taxes, we thought it had better appear in here." Chester Davis was of the opinion that "It will have a lot to do with the acceptance of this plan as far as the processors are concerned. They did not pay the tax and they are not entitled to a charitable refund, but now it is brought back by another tax, but it leaves them where they cannot get a tax refund on export business they have done."

Dr. Ezekiel added the following: "There is one other major point. On the bottom of page 1, you refer to \$180,000,000 impounded. There is also a large sum not paid. They had a 180-day extension on sugar, so they are not paid."

Chester Davis said, "I made two or three suggestions to Mr. Savoy this morning and that was one of them." Mr. Savoy said, "At the top of page 2, after the word 'paid', it was suggested we say 'actually paid or accrued'. Then, in lieu of the word 'consumers' it was suggested we use the word 'distributor' because consumers might be a little confusing with the ultimate customer or consumer. And then where we speak of war profits tax, which taxed at very high rates, we suggested we say 'net income' so it would not look like gross. Do you want to bring up, Mr. Secretary, your other feature?" Secretary Wallace replied, "If we can get in something about the billion dollar thing without bringing up the legal question." Mr. Oliphant inquired what that was and Secretary Wallace answered, "On how far we can go towards closing the possibility of the billion-dollar steal." Mr. Oliphant said, "I think that is a separate problem that will have to be dealt with separately. We have some indications now that under the

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present set-up we might have two million applications and under the Statute, as it stands, we would have to make up records in those 2,000,000 cases and that is a physical impossibility and I think, as Section 21 was drafted at the time, safeguarding the Constitution, we are not worrying about the constitutionality of AAA. That has been settled. And I think we had better think, in drafting Section 21-A -- pretty radical -- simply wipe it out and then provide specially for special cases of hardship. Otherwise, it is an impossible situation. But I don't think it ought to be opened up in connection with taxes." Wallace replied, "That should go forward very rapidly, it seems to me." And Oliphant told him, "We are hard at work on that now."

Mr. Wideman remarked to Secretary Wallace, "Mr. Secretary, you might make mention here that 21-D was left intact and is still law and requires burden of proof before people can recover." And Wallace said, "Yes; that ought to be insured." Continuing, Mr. Wideman said, "You might put one sentence in there that the Supreme Court refused to pass on Section 21-D in the rice cases, so it is the law and they are going to have a good deal of difficulty in recovering. I agree with Mr. Oliphant that it will have to be amended to provide that it can be handled through the Courts to relieve the Commission." Mr. Oliphant explained, "I think in terms of taking away the right to sue completely and also in legislative relief." And Mr. Wideman replied, "We went through that at great length when Section 21-D was passed." Mr. Oliphant said, "At that time you were worried about the constitutionality of AAA," and Mr. Reed explained, "We considered only recovery of taxes and considered that AAA was unconstitutional at that time." Oliphant inquired, "But don't you think it is a separate problem?" and Mr. Reed agreed, saying, "That's right, but I would like to say that I had the burden of carrying the ball with respect to suits on gold bonds, which seemed relatively simple last year, and I ran into a perfect storm of difficulty on the Hill and we only got it by the Senate Finance Committee. We were 8 to 8 when we went in and we finally got one person over. I don't say it is impossible in this situation, because possibly the attitude has changed, but that looked like a very simple thing. The vote was just nip and tuck that we would get through at all and we had to give way on a lot of things to get McAdoo's vote."

Chester Davis had the following to say: "You may recall

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that when we first discussed Section 21-D it was much more restrictive than the one finally adopted and we found it absolutely impossible to get one support which approached closing the door. They just licked us." To which Mr. Oliphant said, "Let's bear in mind that the Senate was not confronted with the gaunt reality of 2,000,000 claims. We have now in the Board of Tax Appeals an accumulation of about 10,000 cases and now we are talking about 2,000,000 claims." Wallace asked, "Could you dictate possibly three sentences that would go into this for public consumption?" Oliphant replied, "All that could be said is that the matter is the subject of further study and 'I will submit it in a later message'."

Savoy stated, "The thought we had was that in the interest of having no new expenditures without revenues being provided and to avoid further recommendation for new taxes, there should be continued safeguarding of the billion dollars and, if possible, a narrowing of the door to permit recovery so that if the economic burden has been sustained they get the tax under existing law. Otherwise, every effort must be made to retain that money and point out to the Congress, thus tying it in with our whole idea here in this message that it would be distasteful to the President, but he probably would be required in the interest of a good Budget to recommend further taxes if they open or close the door to collections of the billion dollars."

Mr. Wideman was of the following opinion: "That is something for the Supreme Court to decide, whether the burden is proper on the processors. The only suggestion as to the amendment of Section 21-D that I have heard is to eliminate the practical difficulty that Mr. Oliphant speaks of, of handling 2,000,000 claims, and the only idea on that is to scatter it among the different Courts." Mr. Reed wanted to know, "Why say there are 2,000,000 cases?" Mr. Savoy stated, in explanation, "There are 1,990,000 floor stock returns, and the processing tax returns ran between 45,000 and 50,000 monthly returns. There will be at least 1,200,000 claims." Ezekiel said, "If you turn that into the Courts instead of the Internal Revenue, you defeat your purpose because Congress would be much less inclined to think of it on an economic basis." Mr. Wideman replied, "We say that it is impossible for the Commissioner to handle it and we don't think we can abolish suit entirely, so the only thing to do is to scatter it among the courts." Oliphant facetiously remarked, "We can go out into Maryland and establish a city."

Wallace stated to Mr. Oliphant "You would do a much

better job than the courts could do. The ordinary judge can't understand the equity involved and the law does not concern it with economic equity."

"Every one of those claims is a potential claim before the Board of Tax Appeals," Mr. Oliphant told the group. It is overburdened now with 10,000 cases. And you get one Commissioner of Internal Revenue with 2,000,000 cases and it's a legal proceeding in itself each one of those claims." Savoy inquired of Mr. Oliphant, as follows: "Isn't it true that if you did not require the Commissioner to make a record and he disallowed, we will say, 1,000,000 claims, that probably three fourths of them would not sue in the Court?" To which Mr. Oliphant replied, "I don't know. Lawyers are pretty hard up for business now." Wallace said, "Maybe it would be well, because of difference of opinion -- maybe we had better not say anything about it in this message." And Oliphant agreed, saying, "I think it should be separate."

When Mr. Oliphant asked if there was any broad question of policy that should be brought up, Mr. Reed said, "Only one -- the question of whether we should expand the tax on attorneys' fees -- the tax which will result in limitation of attorneys' fees and to other attorneys' fees for Government claims. That's been a matter, if not secondary, then almost, since the first income tax was passed." Mr. Oliphant told Mr. Reed that that was a subject he would discuss with him afterwards in connection with Senator Norris. And Secretary Morgenthau remarked, "You are talking about my pet bill. As long as you don't include congressmen and senators, as we did last year, you might get the bill through. We made that mistake last year and that killed the bill."

Wallace asked, "Didn't the President outline a second section that you don't have included here?" Mr. Oliphant explained, "That's on the first page. That a technical description of the thing that we worked out," and upon examining the first page Secretary Wallace said, "Oh, yes!"

Secretary Morgenthau told the group, "Just before you gentlemen came in, McIntyre called and said he had us down for 2:30 today and to let him know." Secretary Wallace asked, "You mean on broad questions of policy?" and Secretary Morgenthau replied, "I mean on the message." Wallace said, "It seems to me the message is O.K.," and HM, Jr. said, "Seems good enough." Reed remarked, "It gives the idea. It

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still needs considerable refinement." When Secretary Morgenthau inquired, "I don't see why we should miss the appointment, do you?", Secretary Wallace replied, "No. What is he asks the question about the legislation outline -- for legislation backing this up? What will you say?" Oliphant replied, "On tax legislation we have a draft of all except the windfall thing." Mr. Wideman explained that Mr. Turney wanted a little more time on that. Wallace inquired, "You are along far enough so this will not cause you any embarrassment; if the President sent this forward tomorrow it would not cause you any embarrassment?" Mr. Savoy stated immediately, "In my mind, I think 21-A and 21-D should be taken care of in connection with processing taxes, to give the boys a clear picture of how they stand, of the position of the Treasury and Justice -- whether the tax on sugar is being continued, because if you consider the tax on sugar was invalid then we handle it one way in this bill, but if you consider it is still valid, we think you should handle it another way in this Act and I wondered if we could clear that up." Mr. Oliphant explained that that awaits information from the Department of Justice. Mr. Savoy inquired, "On whether the tax on sugar is still in effect? That affects my draft." Mr. Wideman stated, "I am not prepared on that, but it seems we could get a meeting of minds on 21-D right now. The only thing to strengthen it is to cut off all right."

Mr. Oliphant inquired if there were any other question of policy and Mr. Reed closed the meeting by stating, "We have plenty of difficulties on sugar, floor stock situation, etc., and let's adjourn to Oliphant's office."

Wed., Feb. 5, 1936

Since my message respecting the budget, several new problems have arisen which require the immediate attention of the Congress and which force me, in the interest of meeting requirements of the Treasury which could not then have been anticipated, to recommend to the Congress the enactment of special tax legislation. You will recall that I said that no new taxes would be required if no new expenditures were made. At that time, I could not foresee the decisions of the Supreme Court which followed or appraise their consequences upon the revenues, nor could I anticipate the Treasury requirements which would follow from legislation thereafter enacted.

*Insert here general paragraph to the effect that for the reasons referred to in the preceding paragraph the President finds it necessary to recommend the enactment of new tax legislation and that he is suggesting to Congress certain sources of revenue to be covered by such new legislation. That part of the message which the Department of Justice is to prepare will then deal merely with the first of such sources and the Treasury's portion of the message would follow with additional sources.*

Processing taxes, impounded by the lower courts and amounting to approximately \$180,000,000 have been ordered returned to the processors. The burden of these uncollected taxes, equally with that of

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the processing taxes actually paid, was, in the main, passed on to consumers or taken out of the price paid producers. Manifestly, the return of the impounded funds to these processors amounts to an unjust enrichment. In all fairness neither the processors nor their customers should be in a better position than that in which they would have been if the tax liability had never entered into their calculations. It is unfortunately not possible to make an adjustment which will return to each individual consumer the amount of the tax which was passed on to him in the prices which he paid and return to each individual producer the amount which was taken out of the prices he received. This unjustified enrichment does furnish, however, a source for the raising of needed additional revenues by a special tax amply warranted by the unusual circumstances of the situation. The revenues so collected could then be expended for general governmental purposes which would redound to the benefit of the country as a whole.

I, therefore, recommend that the Congress enact appropriate legislation to tax this windfall income. Such legislation might well be

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modeled after these provisions of the war profits tax of February 24, 1919, which taxed at very high rates income received in 1919 and later years from Government contracts executed during the War.

The Congress should further consider the application of this principle to the unjust enrichment resulting from the return of any Federal excise which has been passed on by the taxpayer. The reasons which prompted the Congress to tax at high rates the large war profits resulting from Government contracts equally justify the imposition of such a tax as I recommend.

Furthermore, certain inequities have resulted in the case of holders of floor stocks, exporters and persons selling for charitable distribution, who acted in reliance upon provisions of the Agricultural Adjustment Act. I recommend that appropriate legislation be enacted to relieve these inequities.

February 5, 1936

This message on how to raise money for the agricultural program should not go up until the agricultural bill passes Congress.

Today the President switched and wanted to consider only taxes for the agricultural program and did not want even to discuss how to raise money for the bonus.

Wallace asked him about selling cotton and how much they could sell, and the President repeated two or three times, "Henry, through July, August, September, October and up to the 5th of November I want cotton to sell at 12 cents. I do not care how you do it. That is your problem. It can't go below 12 cents," and he said, "Is that clear?" The unfortunate thing about the President's position is that right now we are losing sales every day on cotton because the trade wishes certain particular grades which they cannot get because they are so tied up with red tape and loans that the Government cannot sell it. That is why spot cotton sells at a considerable premium over futures. The trade will, therefore, go to other markets for their cotton and every day we are losing our markets. The President is very stubborn on this point and, I think, very short-sighted.

7.1.5 # 1936

THE WHITE HOUSE  
WASHINGTON

Short	1936	400 M	}
"	1937	440	

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" Total 840 M.

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Windfall Tax 150 M

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690 M  
~~670 M~~

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Wage Int  
to cover various  
contingencies

1 1/4 years 690 M

THE DEPARTMENT OF JUSTICE BROUGHT THIS TO TODAY'S MEETING.

In my last budget message I directed attention to the statement made in the budget summation statement of September 30, 1935, that if attacks on processing taxes were sustained, the country would "have to face the problem of financing existing contracts for benefit payments out of some form of new taxes." I also said in my Budget Message that additional charges upon the Treasury, for which provision is not already made in the budget, should be accompanied by additional taxes to cover such charges. Events which have taken place since those statements impel me to recommend new legislation to provide for Treasury needs.

Insert here general paragraph to be drafted by the Treasury Department to the effect that consequently the President is suggesting to Congress certain sources of revenue to be covered by such new legislation. That part of the message which the Department of Justice has prepared and follows deals merely with the first of such sources, and the Treasury's portion of the message will follow with a description of additional sources.

Processing taxes, impounded by the lower courts and amounting to approximately \$180,000,000, have been ordered returned to the processors. In addition there are other unpaid processing taxes, which cannot now be collected, approximating forty million dollars. The burden of these two classes of uncollected taxes, equally with that of the processing taxes actually paid, was, in the main, passed on to consumers or taken out of the price paid producers. The Congress recognized this fact last August and provided in Section 21(d) of the A.S.A. that in the event of the invalidation of the processing taxes, only those processors who bore the burden of these taxes should be permitted to receive refunds. Manifestly, the return of the impounded funds and the failure to pay other accrued taxes result in unjust enrichment, contrary to the spirit of this enactment. In all fairness, neither the processors nor their distributors should be in a better position than that in which they would have been if the tax liability had never entered into their calculations. It is unfortunately not possible to make an adjustment which will return to each individual consumer the amount of the tax which was passed on to him in the prices which he paid and return to each individual producer the amount which was taken out of the prices he received. This unjustified enrichment does furnish, however, a source for the raising of needed additional revenues by a special tax thereon amply warranted by the unusual circumstances of the situation. The revenues so collected could then be expended for general governmental purposes which would redound to the benefit of the country as a whole.

I, therefore, recommend that the Congress enact appropriate legislation to tax this windfall income. Such legislation might well be modeled after those provisions of the war profits tax of February 24, 1919, which taxed at very high rates net income received in 1919 and later years from Government contracts executed during the War.

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I suggest that the Congress also consider the application of this principle to the unjust enrichment resulting from the return or non-payment of any Federal excise which has been passed on by the taxpayer. The reasons which prompted the Congress to tax at high rates the large war profits resulting from Government contracts equally justify the imposition of such a tax as I recommend.

Furthermore, certain inequities have resulted in the case of holders of floor stocks, exporters and persons selling for charitable distribution, who acted in reliance upon provisions of the Agricultural Adjustment Act. I recommend that appropriate legislation be enacted to relieve these inequities.

**Possible Tax Measures to Contribute  
toward AAA and Bonus Requirements**

1. Broadly speaking, there are three types of taxes whereby Federal revenues may be significantly increased: (1) Consumption taxes, such as the liquor, tobacco, processing, sales and manufacturers' excise taxes; (2) individual income, gift, and death taxes; and (3) taxes on business profits. The Revenue Act of 1935 added to the taxes on business profits, through the increased rates applied to corporation incomes, excess profits, and capital stock; and it raised the rates applicable to very large incomes and estates.

2. In the light of the aggregate tax structure of the country, the imposition of additional consumption taxes by the Federal Government appears to be open to grave objection:

(a) The bulk of such taxes falls upon the lower income groups of our population. In the fiscal year 1935, 55 percent of the Federal tax revenues, exclusive of processing taxes, was derived from consumption taxes; and 61 percent, if processing taxes be included.

(b) State and local governments are increasingly turning to this type of tax. They face grave administrative, competitive and economic difficulties in attempts to apply income, death and profits taxes on a State or local basis. Twenty-five States are now collecting general sales taxes, from which their aggregate revenues are expected to reach \$350 millions during the fiscal year 1936. In addition, various local governments, such as New York City, are imposing sales and excise taxes of varying scope.

(c) Further Federal excursions in this field will not only add directly to the tax burdens of the lower income group -- burdens which are real, though indirect --, but they will further complicate the problems of overlapping and conflicting taxation.

(d) At first blush, it might seem that a Federal manufacturers' excise tax confined to articles selling for more than \$100 might escape most of these criticisms by constituting a kind of luxury tax. But analysis shows that such a tax would fall mainly upon durable consumer goods and industrial machinery and business equipment. Among such articles would be farm implements, household furniture and equipment, including refrigerators, radios, pianos, some plumbing fixtures and heating plants; and a large range of industrial machinery and office appliances. Luxury goods, such as expensive clothing and furniture,

*(Book brought from Mr. Oliphant 1/30/36 by Mr. Hoover)*

*Read by president at meeting 1/30/36*

would be relatively unimportant. Severe administrative difficulties, moreover, are involved in any general manufacturers' excise tax based upon sales prices. Divisible articles could be sold separately to avoid the tax. To take an extreme and unimportant example, a tailor-made suit, selling for \$125, could be sold as a coat, a vest, and a pair of pants. TMM

(d) Finally, the Social Security payroll and income taxes that go into effect during the current and succeeding fiscal years will be borne most largely by the lower income groups through higher prices and lower wages. Federal receipts from these and related taxes are estimated at \$547 millions in the year beginning July 1, 1936.

For all these reasons, the wisdom of reenacting the processing taxes, or enacting other indirect or consumption taxes is extremely doubtful.

3. Contrasting very favorably with additional consumption taxes, are the following relatively simple adjustments in the existing general tax structure. None of the suggestions outlined below is a tax on business. None can be passed on in the form of higher prices to consumers or lower wages to workers. None reduces corporate profits. Each becomes effective only after substantial individual incomes are earned, or accumulated wealth has been received by bequest or gift. These suggestions also possess the fundamental merit of improving not only our income and estate taxes as such, but of improving both the Federal and the aggregate national tax structure as a whole.

I. Elimination of the present exemption of dividends from the normal Federal income tax. Estimated yield, fiscal year 1937: \$57.6 millions.

Dividends received by individuals are now exempt from the 4 percent normal tax applicable to wages, salaries, interest and other parts of individual incomes. The original justification for this exemption was that stockholders pay the normal tax on dividends indirectly through the corporation income tax. In recent years, however, there has been a strong tendency to regard the corporation income tax as a tax for the license or privilege of doing business. In line with this view, there would seem to be little reason for exempting dividends from the normal tax applicable to other parts of an individual's income.

II. Restriction of deductions for personal exemptions and credits for dependents to normal tax liability, disallowing these exemptions and credits as deductions from surtaxable net income. Estimated yield, fiscal year 1937: \$93.7 millions.

This was the practice prior to the Revenue Act of 1934. Then these exemptions and credits are allowed for the purpose of determining liability for surtaxes, their effect is to grant such greater relief to recipients of large incomes subject to the higher surtax rates than to those of small incomes. Then the exemptions and credits are allowable only in connection with normal tax liability, their value is the same for all taxpayers.

III. Imposition of a special surtax of 10 percent on all unearned income received by individuals reporting net incomes of \$10,000 or more; no additional tax to be imposed on the first \$10,000 of income, however. Estimated yield, fiscal year 1937: \$283.5 millions.

Under the present revenue act, "earned income" is defined as all compensation received in payment of personal services, up to a maximum of \$14,000; except that no more than 20 percent of the profits of an individual's business enterprise or that derived from a partnership shall be accounted as earned; except, further, that the first \$3,000 of all income is accounted as earned in any case. The present proposal would retain these definitions of earned income, except that, for purposes of this surtax, the first \$10,000 of all income would be accounted "earned" in any case. The proposed special surtax would apply, therefore, only to the "unearned" portions, as thus defined, of an individual's income. The effect of this proposal would be to supplement the present relatively small difference in the rates applicable to unearned as against earned income.

IV. Alteration of present specific exemption of \$40,000 allowed in computing estate taxes so as to retain this exemption in full for estates of \$40,000 or less, to reduce it gradually for estates between \$40,000 and \$80,000, and so as to eliminate it completely for estates in excess of \$80,000. Estimated increase in revenue, fiscal year 1937: \$31 millions; thereafter, at present values, \$53.1 millions.

The present specific exemption of \$40,000 gives such greater relief to recipients of large estates which are subject to higher rates than to those of small estates. The effect of the proposed alteration would be to retain the exemption in full for small estates and to eliminate it for estates in excess of \$80,000. Great Britain grants no specific exemption whatsoever to estates of more than \$500; as compared with the elimination of the exemption at \$80,000 in the present proposal.

V. The imposition of tax rates identical with those of the individual income tax laws upon all inheritances and gifts received by any individual, except that the first \$40,000 of each inheritance or gift would be exempted from tax by means of a tax credit against the tax equal to \$6,720. Estimated yield, fiscal year 1937: \$325 millions.

VI. Tax on the use of yachts and other vessels. Estimated yield, fiscal year 1937: \$4.5 millions.

It would appear to be equitable and advisable to impose a small tonnage tax of ten cents per gross ton on vessels engaged in domestic trade, to establish the principle that such vessels should contribute to the cost of improvements and maintenance of harbors and waterways. Yachts and other pleasure boats, including inboard and outboard motor boats, and such sailboats as are in excess of 16 feet in length, should likewise bear their share of the cost of river and harbor maintenance. The tax on these classes of boats may well be \$2 per gross ton on yachts of 16 gross tons or more; and flat amounts ranging from \$5 to \$30, according to over-all length, on yachts under 16 gross tons.

All of the revenue estimates contained herein are based upon the estimated tax liability under each of the proposals for the calendar years 1935 and 1936; receipts during the fiscal year 1937 being determined by tax liability arising from the operations of these years. Hence, the estimated revenues will be received during the fiscal year 1937 only if these proposals were made applicable to the calendar year 1935 as well as the calendar year 1936.

Supplementary Fiscal Requirements and Possible Tax Program,  
Fiscal Years 1936 and 1937

1936

1. Expenditures for the Agricultural Adjustment Administration for the fiscal year 1936 aggregated \$411 millions by January 30. Processing tax receipts for the fiscal year to that date aggregated \$68 millions. Congress is being asked to appropriate an additional \$296 millions to carry out unfulfilled contracts. If all of the latter appropriation is expended in the fiscal year 1936, the aggregate AAA expenditures, less processing tax receipts, will amount to \$639 millions for the fiscal year 1936. The Budget estimates for the fiscal year 1936 provided for AAA expenditures of \$621 millions and estimated processing tax receipts at \$529 millions. Hence, in the absence of substitute tax receipts, aggregate AAA expenditures for the fiscal year 1936 in excess of processing tax receipts will be \$547 millions more than was provided for in the 1936 Budget.

2. A portion of these expenditures may actually be deferred until the fiscal year 1937; and another portion has been and may be paid from various special funds available to the Department of Agriculture. If \$150 millions be allowed for such deferments and special funds, the added deficit for the fiscal year 1936, other things being equal, would be \$397 millions. In sum, these figures roughly indicate that the deficit for the fiscal year will be some \$400 millions greater, by reason of the AAA developments, than was anticipated when the Budget for the year was prepared -- except to the extent that this deficit is reduced by additional receipts from new or old taxes, smaller expenditures, or recoveries on assets, in excess of the Budget estimates.

3. It is unlikely that any new non-retroactive taxes that can be enacted during the next month would yield enough during the remainder of the current fiscal year fully to supply the deficiency. If the processing taxes were enacted at two-thirds of the previous rates, to take effect March 1, 1936, it is estimated that receipts therefrom, exclusive of floor tax receipts, would approximate \$76 millions by June 30, 1936. It is estimated that if an excess profits tax were imposed upon that part of the profits of processors which was derived from the receipts of tax refunds after the taxes had been passed on to consumers, it would be imprudent to depend upon any significant receipts from this source during the fiscal year 1936 because of the prolonged litigation that would probably ensue. It may be possible, however, to fill much of the gap by speeding recoveries on assets possessed by governmental corporations and agencies and by curtailing expenditures.

- 2 -

1937

1. AAA expenditures for the fiscal year 1937, under the new measure now being considered by the Congress, are estimated at \$550 millions. Between \$50 and \$100 millions additional may be required to meet AAA obligations deferred from 1936.
2. If the entire cost of the adjusted service certificate payment plan as amended last month is to be defrayed by equal annual appropriations during the nine fiscal years beginning with 1937, an annual appropriation of approximately \$273 millions will then be required. The Budget for 1937 provides \$160 millions. An additional \$12 millions will be necessary for administrative expenses. Hence, for the fiscal year 1937, the Bonus Act has increased the fiscal requirements of the Government by \$125 millions more than was provided for in the Budget.
3. The additional funds needed in 1937 to meet the new AAA and bonus requirements will therefore approximate \$750 millions.
4. Unless the temporary manufacturers' excise taxes which expire at the close of the fiscal year 1937 are to be extended or substitute excise taxes imposed, provision will have to be made by the present Congress for other sources of revenue for the fiscal year 1938. If alterations in the income and estate tax laws to provide such substitute revenues were deferred until the January 1937 session of the Congress, it might prove difficult to make the changes apply to incomes received during the calendar year 1936; and unless this were done, the fiscal year 1938 would lose between 40 and 50 percent of the benefit of such changes.
5. The adjustments suggested below in the existing income and estate tax laws, if made applicable to the calendar year 1936 and thereafter, would produce the indicated amounts of revenue during the fiscal years 1937 and 1938:

- 3 -

Estimated Increases in Revenue from Indicated Adjustments  
in Income and Estate Tax Laws  
(in millions of dollars)

	: Fiscal year : : 1937 : 1938 *	: Fiscal year * : 1937 : 1938
1. Alteration of present specific exemption of \$40,000 allowed in computing estate taxes so as to retain this exemption in full for estates of \$40,000 or less, to reduce it gradually for estates between \$40,000 and \$80,000, and so as to eliminate it completely for estates in excess of \$80,000	31.0	53.1
2. Unearned income surtax of 10 percent applying to all unearned income as now defined	283.2 <u>1/</u>	472.0 <u>1/</u>
3. Elimination of the present exemption of dividends from the normal Federal income tax	54.0	90.0
4. Restriction of deduction of personal exemptions and credits for dependents to normal tax liability (disallowing these exemptions and credits in computing surtax liability)	65.0	108.3
5. 25 percent tax on undistributed corporate earnings	<u>375.0</u>	<u>750.0</u>
Total estimated increase	808.2	1,473.4

Treasury Department, Division of Research and Statistics, February 3, 1936

1/ If first \$10,000 of all income be considered earned, yield would be reduced to \$206.1 millions in 1937 and \$343.6 millions in 1938. If, in addition, rate were reduced to 8 percent, yield would fall to \$164.9 millions in 1937 and \$274.9 millions in 1938.

\* The estimates for 1938 make no allowance for the expected continuance of business recovery after the calendar year 1936, and hence are probably understatements.

6. It is estimated that if the processing taxes were re-enacted at rates equal to two-thirds those previously in effect, collections therefrom would approximate \$360 millions in the fiscal year 1937.

7. If the suggested adjustments were made at this session of the Congress in the income and estate tax laws, and the lowest yielding arrangements under No. 2 were adopted (see note 1/ on page 3), the resulting revenues would approximate \$690 millions in the fiscal year 1937 and \$1,276 millions in the fiscal year 1938. The implications of these figures are:

(a) The additional fiscal requirements for 1937 occasioned by the AAA and bonus developments would be supplied almost completely by the suggested adjustments in the income and estate tax laws:

(b) The processing taxes at two-thirds the previous rates could be enacted for only one year -- 1937; and their proceeds employed to make up more than three-quarters of the added \$400 million 1936 deficit resulting from the AAA decision;

(c) Not only the processing taxes, but virtually all of the temporary manufacturers' excise taxes could be allowed to lapse on June 30, 1937;

(d) Recoveries on assets of governmental corporations and agencies, as well as curtailments in the budgeted outlays of these and other spending agencies, would be available for reducing the size of the Budget deficit for 1937 as estimated in the President's Budget Message of January 3, 1936;

(e) Receipts from any excess profits or other tax designed to absorb impounded or refunded processing taxes have not been included in the revenue estimates for 1937; and any such receipts would likewise reduce the Budget deficit for that year; and

(f) If special earmarked taxes are deemed desirable to finance part of the agricultural program after 1937, it is suggested that customs collections may be earmarked for this purpose.

Taxation of Undistributed Corporate Earnings

Undue accumulation of corporate surpluses would be discouraged if a tax of 25 percent were imposed upon that portion of the statutory income of corporations, less taxes paid, which is not distributed in dividends. Such a tax, moreover, would aid in implementing the existing taxes on large individual incomes, which may now be avoided to the extent that corporations reinvest rather than distribute their earnings.

1. Corporations which paid out all of their earnings in dividends would suffer no additional tax.

2. Corporations which desired to invest new capital in the business could obtain this capital by offering rights and selling additional stock to their stockholders, rather than by withholding dividends. The stockholder would thereby be given a choice which he does not now, in the generality of cases, possess.

3. Provision would be necessary to prevent avoidance of this tax through the device of declaring stock dividends. The stockholder should be given a real choice between reinvesting his share of the earnings in the business and otherwise investing or spending it.

4. It is difficult to estimate the additional revenue that may be obtained from this tax because dividend policies will themselves be influenced by the imposition of the tax. That the tax will be productive of revenues is clear from the fact that the effect of the tax will be both to increase the amount of dividends subject to surtaxes and to increase the effective tax on those corporations which do not fully distribute earnings.

It is estimated that corporations earning net income during the calendar year 1936 will retain, after dividend disbursements, earnings aggregating \$3,000 millions during the year. A 25 percent tax on this amount would equal \$750 millions.

February 6, 1936

Mr. Alverson and Mr. Bell met with the Secretary at 11 o'clock this morning.

Mr. Alverson handed the Secretary a tabulation of amounts which he estimates may be saved out of allocations from the 4 billion \$ appropriation. A copy is attached. The Secretary will take the original with him to the White House for the 2 o'clock meeting in the President's office. Bell also is working on a complete report of the 4 billion \$ appropriation, breaking it down to show how much has been spent and how much remains.

Invited to the meeting at the White House this afternoon are the following:

Secretary Morgenthau  
Secretary Ickes  
Under-secretary Tugwell  
Acting Director of the Budget  
Mr. Lyle Alverson  
Mr. Aubrey Williams

Mr. Morgenthau suggested to McIntyre that Corrington Gill also be invited, but McIntyre replied that he did not want him present. His objection was purely a personal grudge against the man.

While Alverson and Bell were present, HM, Jr. remarked: "I hope that those invited to the White House meeting this afternoon will cooperate with the President and if they don't, I think the President ought to let them know that if they don't cooperate he will ask Buchanan's committee to do it." The Secretary said he did not expect the President will accomplish anything this afternoon, but he is satisfied as long as the President is seriously considering going through with this plan to cut expenditures out of the 4 billion \$.

	(Millions)
U. S. EMPLOYEES COMMISSION	\$ 10
TUGWELL	100
PWA (Loans and Grants)	50
PWA (Housing)	50
INTERIOR (Reclamation)	<u>10</u>
	\$220
BALANCE (Unappropriated out of the 4 billion 8)	<u>160</u>
	\$380
LESS CCC	<u>70</u>
	\$310

February 6th

I asked the President whether he had seen Hurja's survey which shows that Landon would beat Roosevelt for President. The President said he had not but was acquainted with the facts. We talked about his publicity in regard to saving. He said, "I must not talk too quickly or too much about saving, otherwise the impression will go out that I am afraid I am licked". I told him that his opinion on this kind of publicity was better than anybody else's. He said, "For example, at my Press Conference Friday morning I am going to say very little about my Thursday afternoon meeting on the 4 billion 8 because if I make the statement again Friday about saving, the people will get the idea that I have become frightened". He convinced me that his method of handling the publicity on this was right.

However, he in no way showed that he changed his position from last Sunday afternoon. As a matter of fact in discussing the 4 billion 8 when I pointed out to him that it would be suicidal to go on the Hill and ask for more money his reply was, "I never had intended to do this" (I do not believe this is true but that is what he says now). I pointed out to him that he had to transfer out of the 4 billion 8 obligated funds to the amount of 250 to 300 million dollars for Hopkins. He said, "that is too big. They will not need more than 200 million". He may be right. He said, "the thing is working out just the way I thought it would and that on July 1 we will have left 1 billion dollars out of the 4 billion 8". I agreed with him. I showed him that as of the 20th of January they had only spent 1 billion 841 million dollars and that you just could not ask Congress for more money with this record of spending unless you wanted to subject yourself to the most thorough investigation. He agreed and again said, "I had no intention of asking Congress for more money." This, of course, was my objective when I went to see him this morning. The whole thing is most encouraging.

On the way out McIntyre asked me what I thought of appointing Willingham as Administrator for the next six weeks (why six weeks I do not know). He asked me to talk it over with Miss Roche and phone him. I am absolutely opposed to Willingham's appointment.

I forgot to mention in discussing the 4 billion 8 with the President that I wished to carefully examine the 3 billion 3 fund as I am sure that we could get some money out of that, both for relief and to return to the Treasury. I could not ask for any more cooperation than he showed this morning in trying to cut expenses everywhere.

I told him that Parker Gilbert had suggested Johnson of the Chemical for Under Secretary. I said, "I do not think he would do as Under Secretary but what would he think of him as Director of the Budget". He said he knows Percy Johnson very

well and that it was worthwhile thinking it over. If he would take a man like Percy Johnson it would be a great stroke as he is big enough to talk to people like Jesse Jones, etc.

CONFERENCE AT THE WHITE HOUSE, 2 P.M. THURSDAY,  
FEBRUARY 6, 1936, REGARDING ADDITIONAL FUNDS  
FOR WORK RELIEF PROJECTS TO BE  
ADMINISTERED BY THE  
WORKS PROGRESS ADMINISTRATION.

Those present besides the President were: The Secretary of the Treasury, the Secretary of Interior, Aubrey Williams and Corrington Gill, Assistant Administrators of the Works Progress Administration, Lyle Alverson, Director of the National Emergency Council, Dr. Tugwell, Mr. Baldwin, Assistant to Dr. Tugwell, and Mr. Ball.

The President opened the conference by stating that he had the problem of keeping X number of people on the payrolls up to July 1, 1936, without asking Congress for any additional funds for the current fiscal year. He stated that unfinished public works to be paid for out of the Treasury to be continued in 1937 would probably amount to more than one billion dollars, which would be paid out of emergency funds already appropriated and allocated. He also stated that he had instructed Harry Hopkins to reduce the rolls of the Works Progress Administration as fast as it is possible to do so, the employees to be transferred to public works projects under the supervision of the various departments other than Works Progress Administration or absorbed in industry. He thought that Mr. Hopkins could further reduce his rolls as we approach spring weather.

The President explained that the situation was a little better than was anticipated last September when we had our conference at Hyde Park, due to the fact that the estimates of expenditures submitted at that time by the various agencies were higher by several million dollars

each month than actual expenditures. At the Hyde Park conference it was thought that the Works Progress Administration would be completely out of funds by March 31, 1936. Now it is anticipated that the dead line seems to be nearer May 1 and then many of the projects will continue to June 30 on funds already allocated, so that at the present time it is estimated it will not require near as much money to continue work relief projects through to June 30 as was estimated at the September conference.

Mr. Gill brought up the question of the flexibility of funds under allocations made by the President to the Works Progress Administration. He stated that his organization found it rather difficult to move funds around over a state from one project to another because of the requirements under the present regulations, to the effect that for every approved project an amount sufficient to complete the project must be set up on the Treasury's books. He said that if his organization could have complete flexibility of funds so that they might be transferred from one project to another, he thought it possible to get by for the remainder of the year with an additional allocation of, say, \$250,000,000, but if they do not have this flexibility of funds it will probably require 350 to 400 million dollars in order to spread it out over 48 states and the District of Columbia.

Mr. Gill told the President that the 250 million dollars on the basis indicated was the absolute minimum amount which his organization would require, and in order to get by with this amount it would be necessary to reduce his rolls during the coming months by having other governmental agencies take relief employees on their rolls as was con-

templated at the Hyde Park conference. If these agencies do not take these additional employees from Works Progress Administration as was contemplated, the \$50 million dollars will have to be increased by an amount sufficient to care for the employees by which the other agencies fall short.

The President stated that what he had in mind was to permit the various agencies to continue their present program until, say, about April 1, at which time he hopes to have the appropriation for the next fiscal year. At that time he will again go over the figures and be in a better position to estimate the amounts required up to June 30, 1936. Any excess over and above the amount required for the remainder of the current fiscal year will be withdrawn from the various agencies and transferred to Works Progress Administration to carry on its program up to June 30. After the 1937 appropriation is available the President indicated that he would allocate in July to such various agencies an amount sufficient to return to them the amount previously withdrawn for the Works Progress Administration.

Dr. Tugwell stated that he had gone ahead with the understanding that there would be allocated to him approximately \$50 million dollars. He finds now that there is some 67 million dollars in proposed allocations held up. If he does not get this money he will be very much embarrassed in his program. He explained, however, that if the President wanted to take 50 or 60 million dollars of this money and return it after July 1 out of new funds than made available, it would be perfectly satisfactory to his organization if he could proceed on the definite understanding

that he would eventually have 250 million dollars to complete his program.

The President then went over the unobligated balances as of January 30, 1936 of the previous allocations made by him to the various agencies.

Agriculture: Agriculture has an unobligated balance of \$285,654,000, of which \$245,000,000 is on account of Good Roads and Grade Crossing Elimination. The President suggested the sum of \$5,000,000 be saved out of the allocations other than for Good Roads, practically all of which might possibly come out of the allocation made for Soil Conservation Service.

\$5,000,000

Commerce: Commerce has an unobligated balance of \$8,447,000, of which more than \$8,000,000 is under the Census. There was quite a little discussion of this item. Some thought it should be eliminated entirely because of the slow progress being made in taking the census. There seems to be a difference of opinion in the Department of Commerce as to whether the project should be continued. The President thereupon appointed as a committee Mr. Alverson, Mr. Rice and Mr. Gill, to investigate the matter and report thereon. He suggested that they ask Secretary Roper for his recommendation on the matter. The President stated that he thought he could save from 1 to 3 million dollars out of this unobligated balance.

\$8,000,000 (?)

Interior: The Interior Department has an unobligated balance of \$101,984,000, a large part of which is on account of the Puerto Rico Reconstruction Administration and the Reclamation Service. The President asked the Secretary of the Interior to go over the figures and see whether or not he couldn't save at least \$12,000,000 out of the total unobligated balance. He also stated that we might look into the Puerto Rico Reconstruction Administration to see whether or not some of its unobligated balances could not be borrowed for the period of the next five months but with the definite understanding that it would be returned some time after July 1. In this connection the authority of the President to withdraw any allocation made to this Administration should be considered in the light of the provisions of the bill which recently passed Congress and now awaiting the signature of the President, authorizing the expenditure of all funds allocated to this Administration over a period ending in 1940.

\$12,000,000

Justice: This Department has an unobligated balance of \$617,000 on account of administrative expenses, being incurred largely on account of examination of titles to lands being purchased under various land programs. The President suggested that we save \$25,000 out of this fund

25,000

Treasury: The Treasury has an unobligated balance of \$46,785,000, of which \$33,000,000 is on account of administrative expenses. It was explained to the President that this was to take care of the various Treasury organizations handling the accounting, disbursing and procurement activities and also the Coast Guard, Public Health, etc. Nevertheless he thought we should take at least \$10,000,000 from the administrative expense fund and that the Work Relief Supply Fund which has a capital of \$3,000,000, should, when liquidated, be returned to the appropriation account, making a total saving in the Treasury of \$15,000,000.

15,000,000

War: This Department has an unobligated balance of \$58,023,000. The President asked that we look into this matter and see if we could not save \$10,000,000, which he supposed could come out of the allocations for Rivers and Harbors and Flood Control.

10,000,000

Advisory Committee on Allotments: This organization is not now functioning so we might save the whole unobligated balance of the allocation amounting to \$24,000. Secretary Ickes agreed.

24,000

Civil Service Commission: There is an unobligated balance of \$309,000 left out of an allocation of

\$325,000 made to this organization to cover the expense of giving Civil Service examinations to certain supervisory personnel in the C.C.C. camps. This is to be checked to see whether or not Mr. Fechner still contemplates having these examinations given. If not, the allocation is to be cancelled and the \$309,000 saved.

Emergency Conservation Work: This was discussed in some detail and the question was raised as to why the C.C.C. would need the additional \$71,000,000 reserved for it, in view of the fact that it only has two more months of existence under the present allocation. It now has \$75,000,000 unobligated and \$162,000,000 unexpended. It is spending at the rate of 40 to 50 million dollars a month, and with only two months to go, it looks as though the amount already allocated would be sufficient for the organization now in existence. This matter is to be checked with Mr. Fechner with a view to saving the \$71,000,000 in reserve, or any part thereof.

Employees Compensation Commission: An allocation of \$25,000,000 was made to this organization to take care of the compensation cases arising out of Work Relief and C.C.C. projects. It is estimated that \$15,000,000 will be ample for this purpose and that we can save \$10,000,000 on this allocation.

10,000,000

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Federal Emergency Relief Administration: This organization has an unobligated balance of \$26,223,000, of which \$22,964,000 is on account of grants to states for direct relief. As direct relief has now ceased and all relief employees are on work relief programs, it does not seem to be necessary to continue to hold this amount of money available for direct relief purposes. The President indicated, therefore, that the whole \$26,223,000 should be saved.

150,000

NOTE: Mr. Gill subsequently stated that about \$17,000,000 of this balance has been obligated since January 20th, thus leaving only \$9,000,000.

9,000,000

General Accounting Office: This organization has an unobligated balance on account of administrative expenses of \$4,394,000. The President said to take \$1,000,000 of this balance with the promise to the Comptroller General that it would be returned to him after July 1 out of the new funds to be made available.

1,000,000

National Emergency Council: This organization has an unobligated balance of \$787,000 on account of administrative expenses. Mr. Alverson stated that he thought they could save from \$125,000 to \$150,000. The President indicated that he should save \$150,000.

150,000

National Resources Committee: This organization has an unobligated balance of \$584,000. Secretary Ickes did not think they could save very much, but he thought we might take the \$64,000. The President indicated that this would be satisfactory.

84,000

Public Works Administration: In giving the figures of \$252,361,000 as the unobligated balance on account of Housing and Loans and Grants to States, the Secretary of the Interior said that he could not understand how the books could show such large unobligated balances when practically all of their projects for housing are under contract, and further, that all of the loans and grants to states have been committed in the sense that they are certainly morally bound to keep the money available for these purposes. The President said that he would like to have these figures re-checked and have a report thereon from the Secretary of the Interior as to just what the situation is with respect to unobligated funds. Mr. Gill called attention to the allocation of approximately \$25,000,000 made to the Public Works Administration at the Hyde Park conference for certain specific projects with the understanding that an equivalent amount of funds would be returned to the \$4,800M fund from other sources. The President indicated that this might be saved by permitting cancellations to accumulate.

Resettlement Administration: There was quite some discussion on the item of \$140,267,000 shown as the unobligated balance for this organization. After going over Dr. Tugwell's program and the policy that he had been following, the President indicated that we might save \$30,000,000 on account of rural settlements and \$11,000,000 on account of urban settlements, with the understanding that these funds would be returned after July 1 out of the new relief appropriation. Dr. Tugwell stated that he would have no difficulty in agreeing to this if such amount could come from the total of \$250,000,000 tentatively promised him, but he did not see how he could agree to the \$41,000,000 coming out of the allocations already made, amounting to \$184,779,000. The President stated that we were not trying to get money from funds which have not yet been allocated but that the purpose of this conference was to have funds drawn back from allocations already approved. This matter is to be discussed further.

Total contemplated savings - - \$68,265,000

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The question of withdrawing funds from Good Roads allocations again came up for discussion. The President asked about the situation in regard

to this matter. I explained that at the December conference he said he would request the Attorney General for an opinion as to whether the President could withdraw allocations made for account of Good Roads. While I had seen no formal opinion from the Attorney General, some one had told me within the last few days that the Attorney General had expressed his informal opinion to the effect that the President could not withdraw the money allocated for Good Roads in view of the provisions of the Emergency Relief Appropriation Act of 1935 covering such allocations. Secretary Ickes suggested that the President talk personally with Senator Hayden on this Road matter. He thought that if it were explained to Senator Hayden just what was contemplated, he would be agreeable to attaching a rider to some appropriation bill authorizing the withdrawal of \$150,000,000 of these funds from Road allocations with the understanding that we could substitute other relief funds after July 1, 1936. The President agreed to do this and said that after he had talked to Senator Hayden he would like to have Mr. Alverson, Mr. Gill and myself confer with Senator Hayden on the matter and work out a program of procedure.

The President closed the conference by saying we would have another conference in the course of the next thirty days, at which time he thought the situation would be much clearer than it is at the present time and that we would know in an approximate way the amount of money needed for next year, so that we could plan our program for the remainder of this year and next year accordingly.

*AWP*

THE NATIONAL EMERGENCY COUNCIL

111

WASHINGTON

February 7, 1936.

OFFICE OF  
THE EXECUTIVE DIRECTOR

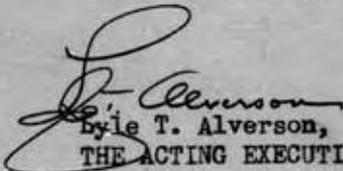
Hon. Henry Morgenthau, Jr.,  
The Secretary of the Treasury,  
Treasury Building,  
Washington, D. C.

Dear Mr. Secretary:

Here is a transcript of the notes I made of yesterday's meeting. I believe they are reasonably accurate and clear, but if any questions occur to you, I should be glad to try to amplify them.

I am sending copy of these notes to Mr. Bell, but to no one else.

Yours very truly,

  
Lyle T. Alverson,  
THE ACTING EXECUTIVE DIRECTOR.

The President stated the necessity of keeping x number on the relief rolls until July 1, 1936, and said that he cannot ask for more money this fiscal year for that purpose. He stated that there will be about \$1,000,000,000 of the Emergency Relief Appropriation Act of 1935 fund unexpended on July 1, next, and that most of such sum will be spent in the next fiscal year. The President observed that we have too many at work now and that we should pretty soon cut the rolls to three million people. Doing that, he said, will lessen the cost through April, May and June. He added that at Hyde Park, in September, the situation could not be seen clearly beyond the first of March, that today, W.P.A. is not spending the money, week by week, as fast as they then believed they would have to, and that he believed W.P.A. can run until about the first of May with the funds they now have. The President further said that W.P.A. can get by until July 1, 1936, with \$200,000,000.

Mr. Williams dissented and undertook to explain the required procedure whereby, in order to keep projects running until July 1, 1936, they are required to "hang up" enough funds actually to complete each job they start, whether finished before or after July 1. Mr. Williams also explained that established procedure is not flexible enough to enable them rapidly to lift money from one job to another.

The President stated that W.P.A. should spend all of its money by July 1. Mr. Gill said that it can do so if the procedure is changed. The President suggested that E.R.A. funds should not be obligated beyond July 1, and discussion ensued between the President and Messrs. Bell,

Williams and Gill as to whether it would be practicable to rearrange allocations during, say, April or May, and then allot (effective as of July 1, 1936) funds to be provided by the new relief bill, assuming such bill was then enacted.

The President returned to the question, how much money is needed by W.P.A. to carry it to July 1, \$200,000,000 or \$250,000,000? Mr. Gill said that the minimum need was \$250,000,000 and that such sum would be sufficient only if the other agencies employed all of the men they have said they would employ. If they did not do so, and if employment by them was no greater than he estimated, in light of past performance, that it would be, the need was for \$310,000,000. The President said that \$250,000,000 would have to suffice.

The President reiterated, we cannot ask for more money for use this fiscal year, and said we must shake down Public Works, Resettlement and all other agencies, to provide this sum.

Dr. Tugwell asked the President whether his rural rehabilitation cases should be counted as people at work on the program. The President replied that that question could not be shortly answered, that some of such people should be so counted and some should not be. Theoretically, he added, rural rehabilitation cases should be going down and down, but Dr. Tugwell stated that such was not the case at this time of the year, and added that Resettlement could give up \$50,000,000 if it was not required to "hang up" money with which to complete all projects.

The President then took up the sheets showing the allocation, obligations, expenditures and balances in the case of each agency. He

started with the Library of Congress, and then took up Agriculture. In that connection he referred to the Bureau of Public Roads and asked, can we get any of that money? Mr. Bell suggested that the Attorney General is said to have ruled against taking away any of such money. Dr. Tugwell suggested that the Soil Conservation Service will not spend all of its money, and the President said that \$5,000,000, should be taken from Agriculture, regardless of the public roads question.

Department of Commerce. The President inquired about the business survey. Mr. Gill said that whereas the same was slow in getting started and had received wider exemptions than usual, it was a good project and probably should not be cut. Mr. Alverson suggested that more than usual difficulties were being encountered, and that in his opinion it was questionable whether under the circumstances encountered the survey would be worth its cost. The President said, there are three things we can do with this: we can stop it altogether; we can cut it down by restricting it to certain areas, or we can cut it down very much by making it a sampling operation. He asked Messrs. Gill and Alverson to meet with Stuart Rice, and later with Secretary Roper, and bring back a recommendation to him as to what should be done. Tentatively, the President said, he would put down \$5,000,000 to be saved therefrom.

Interior. The President read each item and the total unobligated balance of \$101,000,000, and asked about the All American Canal. Secretary Ickes stated that some could be cut there, that Congress will take care of that project anyway, and that at least \$1,500,000 could be taken off. As to Puerto Rico, he said, they are not going to spend the total

of \$35,000,000 there this fiscal year. The President said, if the new bill is sufficiently broad we can take away the part that would not be spent before July 1, with the idea that the balance necessary to make the \$35,000,000 would be repaid from the new fund. The President added that we should keep in mind the necessity of having in this new bill language broad enough to reimburse some of these allocations which we take this spring, but we must not take anything from Puerto Rico unless we are sure of getting it back.

Mr. Gill raised the query as to the meaning of the bill just passed whereby all sums heretofore made available to Puerto Rico might be spent until 1940: Does that mean that allocations already made could not be rescinded?

Reclamation. Secretary Ickes stated that we can take some of that money if we know we are going to get it back. Mr. Bell stated that the bill pending would take care of next year's costs, and Mr. Ickes said that \$10,000,000 or \$12,000,000 could be taken from Reclamation on this understanding. The President put down \$12,000,000 as the amount to be saved.

Labor. The President said that Labor has asked for \$3,000,000 more to carry the employment service over the last four months of the fiscal year, at the rate of \$750,000 per month, and that he thought little if anything could be saved on Labor's statistical project for \$968,000.

Navy. Mr. Gill stated that no saving could be made there because Navy work is as good relief work as if done by W.P.A.

Treasury. The President read the item of administrative expenses, \$53,000,000 and said that since we are going to reduce employees, why not reduce administrative expenses. He observed that the Department has

expended only one-fourth of its allotment, although the year is more than half gone, and said that we should take \$10,000,000 from this fund. Mr. Bell said that he estimated that to be the maximum amount that might be left unspent at July 1. Mr. Gill stated that other Treasury projects were good work relief projects.

War. The President stated that the work of this department was low cost and good work relief except for rivers and harbors. Mr. Alverson reported that it appeared that at the present rate of progress the Engineers would have unobligated \$5,000,000 of its rivers and harbors money at July 1, next, and the President said this work could be slowed up somewhat so as to save \$10,000,000.

Advisory Committee on Allotments. The President instructed that the \$24,000 remaining should be taken back.

Alley Dwellings. The President said nothing is to be taken from this allotment.

Civil Service Commission. This allotment, of which \$509,000 was still unobligated, was to pay for examinations of applicants to E.C.W. Mr. Bell observed that the Commission was slow in getting started and the President instructed him to find out whether all of this money would be needed for expenditures by July 1.

Emergency Conservation Work. The President said that the first three items of land acquisition and administrative expense were all right. As to C. C. C., Mr. Bell explained that there is a reserve of \$71,000,000 supposedly necessary to carry them through to April 1. The question was raised, whether, if the new appropriation became available on April 1, the money presently allotted to C.C.C. would not carry it

until April 1 without the additional allotment of \$71,000,000 and the President asked Mr. Bell to check up on this, stating that on the basis of the present expenditures we might get back all of this \$71,000,000.

Employees' Compensation Commission. Mr. Bell stated that this fund would not require before July 1 \$10,000,000 of the \$28,000,000 allotted, and the President directed that \$10,000,000 should be taken from it.

F.E.R.A. The \$22,900<sup>000</sup> remaining unobligated here as grants to states is what is left of the old, original allocations for relief. The President suggested that all of this be rescinded because, he stated, it can readily be put back.

General Accounting Office. The President inquired whether the unobligated balance of \$4,394,000, remaining out of the \$6,000,000 first given, would be all expended by July 1. Mr. Bell estimated that perhaps \$1,000,000 might be left and the President noted such amount to be rescinded.

National Emergency Council. The President inquired of Mr. Alverson whether we would have \$250,000 left unexpended at July 1 from the unobligated balance of \$787,000. Mr. Alverson responded that the amount would not exceed \$100,000 to \$150,000, and the President noted a reduction of \$150,000.

National Resources Committee. The President indicated that \$84,000 could be taken here.

Prison Industries Administration. Nothing here.

P.W.A. Housing. Secretary Ickes said that contracts had been let for foundation work or its equivalent in the case of all approved projects, and that all sums allotted were necessary to finish these projects. The President indicated that no reduction should be made.

P.W.A. Loans and grants. Mr. Bell's figures showed \$182,700,000 remained unobligated. Secretary Ickes thought that figure was much too high. The President stated that until these figures are checked up, no more substitution projects should be put through, and that he would note a saving of an unstated amount, saying that we should save all rescissions from now on.

Resettlement. The figures show \$140,000,000 unobligated balance. Dr. Tugwell said \$106,000,000 will go to farmers before July 1, leaving \$34,000,000, which he stated will have to be spent for Rural Resettlement. This money is not obligated because that work is done by force account. Mr. Bell asked if he would spend about \$40,000,000 between now and July 1. Dr. Tugwell responded that he must have an additional allotment of \$67,500,000 or he will have unfinished projects and no money for them. Secretary Morgenthau suggested that the President might take \$60,000,000 to \$75,000,000, and Dr. Tugwell inquired, on what conditions? The President said, Dr. Tugwell has two problems, the first of these is rehabilitation and the second is community groups of housing. Secretary Morgenthau asked if there are not two kinds of such housing and Dr. Tugwell replied there were, and said that the rural communities are not complete. Secretary Morgenthau asked how much it would take

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to complete them and Dr. Tugwell replied \$48,000,000. He further said he has allotted \$31,000,000 for suburban communities of which he will spend \$16,000,000 by July 1. The President asked if he correctly understood that Dr. Tugwell would need \$48,000,000 to finish the rural communities, but that he would need only \$10,000,000 to be spent between now and the first of July. Why not, he asked, give Dr. Tugwell, say, \$18,000,000 now for the rural communities and take the remaining \$30,000,000 out of the new bill? Dr. Tugwell replied that we must "hang up" from present funds enough to finish the present projects. The President inquired should we not say to Resettlement, go ahead until we know where the new bill puts us; and that we hope on these rural settlements we can save \$30,000,000 and pay it back when we get the new bill. He added, you have got a potential saving there of \$30,000,000, and on the suburban settlements we can get back about \$12,000,000 to \$15,000,000. As to the individual loans to farmers, Dr. Tugwell said no cuts should be made and the President agreed.

Dr. Tugwell then brought up the \$67,500,000 figure again and a discussion followed as to whether or not the \$42,000,000 to \$45,000,000 potential saving comes from funds already allotted, or should be measured against those funds plus the \$67,500,000 which Dr. Tugwell claimed had been promised to him. The President listened and finally said that Dr. Tugwell and Mr. Bell should get together on that.

The following is a copy of memorandum which the President made at this point in long hand:

Agriculture .....	\$5,000,000
Commerce .....	5,000,000
Interior .....	12,000,000
Justice	25,000
Treasury	13,000,000
War	10,000,000
Advisory Committee on Allotments.	24,000
C.C.C.	70,000,000
Employees' Compensation Commission	10,000,000
F.E.R.A.	23,000,000
McCarl	1,000,000
National Emergency Council	150,000
National Resources Committee	<u>84,000</u>
	\$149,283,000
Rex (?)	41,000,000
P.W.A. (?)	<u>25,000,000</u>
	\$215,000,000

At the end of the conference Secretary Ickes suggested the possibility of legislation, through the good offices of Senator Hayden, whereby to release road money that would not be spent this year, and the President asked Mr. Alverson to report back to him on the opinion of the Attorney General in this regard. He then said that if the Attorney General's opinion was adverse he would telephone Senator Hayden that Mr. Alverson and Mr. Gill would call on the Senator to try to arrange for appropriate legislation.

SUMMARY

	Presidential Allocation	Obligations	Expenditures	Balances		Funding Presidential Allocations.
				Unobligated	Unexpended	
<u>LEGISLATIVE ESTABLISHMENT</u>						
Library of Congress .....	211	72	1	139	210	
<u>EXECUTIVE DEPARTMENTS</u>						
Agriculture .....	575,129	289,475	39,731	285,654	485,398	950
Commerce .....	10,453	2,006	700	8,447	9,753	
Interior .....	131,738	29,754	6,092	101,984	125,645	
Justice .....	900	283	241	617	659	
Labor .....	9,635	5,979	5,728	3,656	3,907	
Navy .....	17,543	8,722	6,417	8,821	11,126	
Treasury .....	63,241	16,456	10,810	46,765	52,431	
War .....	149,065	91,042	38,176	58,023	110,889	
Sub-total .....	957,704	443,717	157,895	513,987	799,809	950
<u>INDEPENDENT ESTABLISHMENTS</u>						
Advisory Committee on Allotments .....	25	1	1	24	24	
Alley Dwelling Authority .....	200	-	-	200	200	
Civil Service Commission .....	325	16	3	309	322	
Emergency Conservation Work .....	527,479	451,410	359,380	76,059	168,099	
Employees Compensation Commission .....	28,000	204	158	27,796	27,842	
Federal Emergency Relief Administration..	938,530	912,307	905,465	26,223	33,065	
General Accounting Office .....	6,000	1,606	1,496	4,594	4,504	
National Emergency Council .....	1,720	933	799	787	921	
National Resources Committee .....	1,000	416	376	584	624	
Prison Industries Reorganization Administration .....	100	19	13	81	87	
Public Works Administration .....	440,751	188,390	32,641	252,361	408,110	
Resettlement Administration .....	184,774	44,512	27,877	140,267	156,902	2,358
Rural Electrification Administration ...	10,637	370	363	10,267	10,274	137
Veterans Administration .....	1,269	545	408	724	861	
Works Progress Administration .....	1,278,112	549,039	354,767	729,073	923,345	10,267
Sub-total .....	3,418,927	2,149,768	1,683,747	1,269,159	1,735,180	12,756
Total .....	4,376,632	2,593,485	1,841,643	1,783,286	2,535,199	13,706
Unallocated .....	a 23,158					
Grand total .....	4,400,000					

a Letters pending against this amount - \$13,706,000

	Presi- dential allo- cation	Oblig- ations	Expen- ditures	Unob- ligated	Unex- pended	Pending Presiden- tial al- locations
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<b>JUDICIAL</b>						
Administrative Expenses.....	900	285	241	617	659	

<b>LABOR</b>						
Administrative Expenses.....	158	61	51	94	104	
Administrative Expenses 1934... Act of Aug. 30, 1935.....	100	5	5	94	94	
Employment Service.....	8,000	5,633	5,481	2,367	2,579	
Administrative Expenses.....	--					
Immigration and Naturalization..	160	47	32	133	148	
Labor Statistics.....	1,800	232	218	968	982	
Subtotal.....	9,636	5,979	5,728	3,656	3,907	

<b>NAVY</b>						
Administrative Expenses.....	224	106	104	118	120	
Yards and Docks.....	17,319	8,616	6,315	8,703	11,006	
Subtotal.....	17,543	8,722	6,417	8,821	11,126	

<b>TREASURY</b>						
Administrative Expenses.....	44,700	11,377	8,112	33,323	36,568	
Coast Guard.....	5,284	2,096	307	3,168	4,957	
Internal Revenue Tax Survey.....	6,283	1,973	1,634	4,310	4,649	
Procurement Division						
Decorations of Federal Bldgs.	531	54	58	465	473	
Fire Hazard Removal.....	15	-	-	15	15	
Work Relief Supply Fund.....	3,000	-	-	3,000	3,000	
Public Health Service.....	3,450	944	699	2,506	2,751	
Subtotal.....	63,241	16,456	10,810	46,786	52,431	

<b>WAR</b>						
Administrative Expenses.....	1,425	566	509	871	917	
Quartermaster Corps.....	14,700	5,807	4,015	6,893	10,686	
Rivers and Harbors						
Flood Control.....	132,939	84,680	33,652	48,259	99,897	- 10
Subtotal.....	149,064	91,042	38,176	56,023	110,660	

<b>INDEPENDENT ESTABLISHMENTS</b>						
<b>ADVISORY COMMITTEE ON ALLOTMENTS</b>						
Administrative Expenses.....	25	1	1	24	24	- 24000

<b>ALLEY DWELLING AUTHORITY</b>						
Low Cost Housing						
Alley Improvement.....	200	-	-	200	200	

<b>CIVIL SERVICE COMMISSION</b>						
Administrative Expenses.....	325	15	3	309	322	

<b>EMERGENCY CONSERVATION WORK</b>						
Acquisition of Land on Isle Royale .....	705	-	-	705	705	
Administrative Expenses.....	140	140	45	-	94	
Administrative Expenses .....	50	50	50	-	-	
Civilian Conservation Corps....	514,158	439,020	381,265	75,138	162,895	70.7
Forest Service						
Miscellaneous Projects, etc..	900	674	674	226	226	
Indian Service .....	11,526	11,526	7,347	-	4,179	
Subtotal.....	527,479	451,416	389,390	76,069	165,099	

<b>EMPLOYEES COMPENSATION COMMISSION</b>						
Injury Compensation Fund including Administrative Expenses.....	23,000	204	150	27,796	27,842	10

<b>FEDERAL EMERGENCY RELIEF ADMIN.</b>						
Administrative Expenses.....	10,491	7,232	5,181	3,259	4,310	75
Grants to States, etc.....	928,039	900,073	899,284	22,964	23,756	
Subtotal.....	938,530	912,307	904,465	26,223	28,066	

## EMERGENCY RELIEF APPROPRIATION

	Presi- dential allo- cation	Obli- gations	Expen- ditures	Balances		Pending Presiden- tial al- locations
				Unob- ligated	Unex- pended	

## LEGISLATIVE ESTABLISHMENT

## Library of Congress

Work Relief Project  
Construction of Talking  
Book Machines for Blind

211	72	1	139	210
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## EXECUTIVE DEPARTMENTS

## Agriculture

Administrative Expenses.....	9,967	3,246	2,193	6,721	7,774	
Agricultural Engineering.....	7	5	4	2	3	
Animal Industry.....	1,583	442	162	1,241	1,521	
Biological Survey.....	266	53	19	213	247	950
Chemistry and Soils.....						
Dairy Industry.....	3	3	3	-	-	
Entomology and Plant Quarantine.....	16,560	5,756	4,569	9,804	11,991	
Extension Service.....	4	2	1	2	3	
Forest Service.....	25,578	17,227	6,822	8,291	18,750	
Plant Industry.....	43	25	18	17	25	
Public Roads including Grade Crossing Elimination.....	500,000	253,567	70,259	246,433	429,741	
Soil Conservation Service.....	21,000	8,084	5,672	12,916	15,328	
Weather Bureau.....	18	4	3	14	15	
<b>Subtotal.....</b>	<b>575,129</b>	<b>289,475</b>	<b>99,731</b>	<b>285,354</b>	<b>485,398</b>	

## COMMERCE

Administrative Expenses.....	245	138	66	107	179	
Census.....	9,832	1,824	613	8,058	9,269	
Fisheries.....	231	28	13	203	216	
Lighthouses.....	20	16	6	4	14	
Standards.....	75	-	-	75	75	
<b>Subtotal.....</b>	<b>10,453</b>	<b>2,006</b>	<b>700</b>	<b>8,447</b>	<b>9,753</b>	

## INTERIOR

Administrative expenses.....	2,313	354	303	1,959	2,010	
Alaska Road Commission.....	671	556	401	115	270	
All American Canal.....	15,000	929	12	12,071	12,968	
Bituminous Coal Service.....	90	31	15	59	75	
Geological Survey.....	10	4	3	6	7	
National Park Service.....	8,250	-	-	8,250	8,250	
Office of Education. School Survey and Educational Projects.....	1,949	3	2	1,946	1,947	
Grants to States etc.....						
Puerto Rico Reconstruction Adm. Administrative Expenses.....	1,225	819	454	406	771	
Forestation.....	994	265	135	729	859	
Grants to States, etc.....	4,939	1,320	128	3,679	4,871	
Housing.....	2,200	90	22	2,110	2,178	
Rural Rehabilitation.....	23,652	512	194	23,140	23,458	
Work Relief Projects.....	307	1	1	305	306	
Reclamation Grants to States, etc.	5,000	177	87	4,823	4,913	
Reclamation Irrigation, etc.....	64,650	24,678	4,332	39,972	60,318	
St. Elizabeths Hospital.....	9	2	2	7	7	
Virgin Islands Road Construction.....	192	1	-	191	192	
Rural Rehabilitation.....	151	3	1	149	150	
Work Relief Projects.....	91	9	-	82	91	
Indian Projects.....	1,985	-	-	1,985	1,985	
<b>Subtotal.....</b>	<b>131,739</b>	<b>29,754</b>	<b>8,072</b>	<b>101,984</b>	<b>125,546</b>	

Presi-	Colli-	Expes-	Balance		Pending
demiel	gations	itures	Unob-	Unex-	Presiden-
alle-			ligated	pended	tial al-
ation					locations

GENERAL ACCOUNTING OFFICE

Administrative Expenses.....	5,000	1,505	1,495	4,394	4,004	
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NATIONAL EMERGENCY COUNCIL

Administrative Expenses.....	1,780	235	722	787	261	
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NATIONAL RESOURCES COMMISSION

Administrative Expenses.....	1,000	415	375	584	624	
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PRISON INDUSTRIES REORGANIZATION ADMINISTRATION

Administrative Expenses Executive Order 7194.....	100	19	15	81	87	
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PUBLIC WORKS ADMINISTRATION

Housing.....	101,373	11,711	11,704	89,642	89,642	
Loans and Grants to States, etc....	338,378	178,679	80,937	162,622	318,441	
Subtotal.....	440,751	186,590	92,641	252,264	408,110	

RESSETTLEMENT ADMINISTRATION

Administrative Expenses .....	22,650	13,728	10,687	8,922	11,963	
Relief in Stricken Agricul- tural Areas.....	11,129	4,472	3,730	5,657	7,394	
Rural Rehabilitation.....	131,000	25,312	13,455	104,668	117,545	
Soil Erosion Stream Pollution, etc.....	20,000	-	-	20,000	20,000	2,352
Subtotal.....	184,779	44,512	27,872	140,267	156,902	2,352

RURAL ELECTRIFICATION ADMINISTRATION

Administrative Expenses.....	650	345	338	305	312	
Loans to Private Corporations.....	7,250	25	25	7,225	7,225	137
Loans to States, etc.....	2,737	-	-	2,737	2,737	
Subtotal.....	10,637	370	363	10,267	10,274	137

VETERANS ADMINISTRATION

Administrative Expenses.....	35	5	3	30	28	
Construction and Improvement of Buildings.....	1,254	540	405	594	629	
Subtotal.....	1,289	545	408	624	657	

WORKS PROGRAMS ADMINISTRATION

Administrative Expenses.....	51,500	37,793	30,180	13,707	21,350	
Assistance for Educational, Pro- fessional and Clerical Persons..	95,448	17,384	12,868	76,124	80,580	
Forestation Prevention of Soil Erosion.....	10,000	1,581	441	13,419	14,509	
Grants to States Work Relief Projects.....	1,107,178	491,488	310,918	615,228	796,258	10,267
Work Relief Projects on Federal Property.....	10,988	891	390	10,077	10,528	
Subtotal.....	1,275,114	549,057	554,797	729,075	923,225	10,267
TOTAL.....	4,376,642	2,395,557	1,841,643	1,783,285	2,515,199	13,706

1  
\$50,000.00  
\$34,000.00

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Feb 8 1936  
White House 125

I. LIQUIDATION OF ASSETS WHICH WOULD IMPROVE THE BUDGET SITUATION.

3. 30 P.M.

Bell  
I. H. J.

Farm Credit Administration-

1. Bank for Cooperatives.-- This organization has a capital of \$134,000,000, all owned by the United States Government. On December 31, 1935, it had outstanding loans amounting to \$50,000,000. Other assets held by this organization were Government securities amounting to \$38,000,000, and Federal Farm Mortgage Corporation bonds amounting to \$43,000,000, or a total of \$81,000,000. It is suggested that the capital be reduced to \$75,000,000, thus saving \$59,000,000 to the Treasury. In reducing this capital it would be necessary to sell on the market some of the Government and Federal Farm Mortgage Corporation securities. The proceeds of this sale would come into the Treasury as a receipt, and thereby reduce the deficit by that amount.

\$59,000,000

2. Production Credit Corporations.-- The capital of these organizations is \$120,000,000, all of which is owned by the Government. These corporations have purchased stock in production credit associations to the extent of \$77,000,000, leaving \$43,000,000 of its capital intact. Of this sum \$20,000,000 is invested in Federal Farm Mortgage Corporation bonds, \$21,000,000 in Land Bank bonds, and \$2,000,000 in Government securities. It is suggested that the capital be reduced to \$100,000,000, thus saving \$20,000,000. The sale of the securities held by these Corporations would have the same effect on the Budget as the sale of the securities held by the Bank for Cooperatives.

20,000,000

3. Subscription to Capital Stock of Federal Land Banks.-- There is a revolving fund on the books of the Treasury originally amounting to \$125,000,000, which has been invested in capital stock of the various Federal Land Banks. The law provides that 25% of the subscriptions to the capital stock of Federal Land Banks by national farm loan associations and by individual borrowers shall be applied to the retirement of this Government-owned capital stock. Proceeds from this retirement are deposited in the revolving fund and are available for reinvestment in Land Bank stock upon the approval of the Governor of the Farm Credit Administration. If the provision creating the revolving fund could be repealed the repayment of capital stock would be covered into the Treasury as a miscellaneous receipt. This would increase our receipts and decrease our deficit. It is estimated that approximately \$1,500,000 will be deposited in the Treasury during the remainder of the current fiscal year, and approximately \$2,600,000 during the fiscal year 1937.

1,500,000

Federal Deposit Insurance Corporation and Federal Savings and Loan Insurance Corporations.--- The Federal Deposit Insurance Corporation has a capital of about \$300,000,000, invested for the most part in Government securities. It has insurance in force/about \$17,000,000,000.

The Federal Savings and Loan Insurance Corporation has a capital of \$100,000,000 invested in Home Owners' Loan Corporation bonds. It has insurance in force of about \$649,000,000.

It is suggested that a study be made of these two organizations to see whether or not the Federal Savings and Loan Insurance Corporation can be consolidated with the Federal Deposit Insurance Corporation with a possible reduction in total capital structure of \$50,000,000, the liquidation of which should be in the Government's contribution to the Federal Deposit Insurance Corporation capital. \$50,000,000

Reconstruction Finance Corporation.--- Suggest curtailment of loaning activities of this Corporation on general account so that receipts may benefit Treasury and reduce Budget requirements. Also suggest that some of the stronger banking institutions be canvassed to see if the preferred stock owned by the Government in such institutions cannot be retired.

In other words, so far as possible make the Reconstruction Finance Corporation a liquidating agency. If this is done we may increase our receipts by more than \$100,000,000. 100,000,000

Federal Housing Administration.--- Appraisal fees now charged by the Federal Housing Administration are deposited in the Mutual Mortgage Insurance Fund along with insurance premiums, and invested in Government securities. These fees should be covered into the Treasury as a miscellaneous receipt and thereby add additional receipts to the Budget. It is estimated that such receipts will amount to approximately \$1,300,000 in the fiscal year 1936 and \$2,500,000 in the fiscal year 1937. 1,300,000

Cotton Transactions.--- To the extent that the Secretary of Agriculture is able to dispose of the cotton held in the cotton pool the Budget situation will be benefited. In other words, if he were permitted to sell spot-cotton of 642,000 bales at, say \$60 per bale, it would return to the Treasury approximately \$38,000,000. 38,000,000

## II. LIQUIDATION OF ASSETS WHICH WOULD IMPROVE THE PUBLIC DEBT SITUATION

Loans to Industry, Federal Reserve System.—Federal Reserve Banks are making loans and discounts for industrial purposes under the provisions of the Federal Reserve Act, one half of which are paid from the surplus of the Federal Reserve Banks and the other half paid from an appropriation made by Congress amounting to \$139,000,000 out of the increment resulting from the reduction in the weight of the gold dollar. Up to date the banks have only used about \$23,000,000 of this appropriation, leaving approximately \$113,000,000 still available in gold. It is suggested that this authority be repealed except to liquidate commitments now on the books and thereby save approximately \$100,000,000. This saving could not, however, affect the Budget unless the gold increment was covered into the Treasury as a receipt. In view of the policy already announced that this increment would be used to retire the public debt, it is suggested that it be added to the reserve for the retirement of national bank notes, which is a reduction in the public debt.

\$100,000,000

Philippine Currency.—Congress authorized an appropriation of \$23,863,000 out of the increment resulting from the reduction in the weight of the gold dollar, this being a sum equal to the increase in the value of the gold equivalent of the balances maintained by the Philippine Government in banks in the United States on January 30, 1934, for its gold standard fund and Treasury certificate fund. So far Congress has refused to appropriate this money. If this bank law were repealed the gold held in reserve to meet this authorization could be returned to the general fund for debt retirement purposes the same as the gold mentioned above held for industrial loans through Federal Reserve Banks.

23,863,000

Gold Reserves for Gold Certificates Held by the Public.—The Treasury is holding approximately \$100,000,000 in gold as a reserve against gold certificates (old form) outstanding in the hands of the public. To the extent that they are held by American citizens, no gold will be required to meet their redemption but if held by foreigners gold might be demanded and paid. Many of the certificates will never be presented. It is suggested that legislation be enacted transferring this gold to the general fund for debt retirement purposes and that the gold certificates be made a part of the non-interest bearing public debt.

100,000,000

Public Works Administration.— The Public Works Administration holds approximately \$165,000,000 face amount of obligations representing loans to States and municipalities, railroads, etc., which it contemplates selling to the Reconstruction Finance Corporation, proceeds from which will go into a revolving fund to be used by the Public Works Administration for additional loans. If the Public Works Administration were directed to sell these securities on the market direct the proceeds therefrom would come into the Treasury as a miscellaneous receipt and be available for debt retirement under the National Industrial Recovery Act. This would be a wash transaction in the Budget but would have the effect of reducing Treasury borrowing requirements. \$165,000,000

III. CANCELLATION OF LOAN AUTHORIZATIONS.

Home Owners' Loan Corporation--

Bond authorization	\$4,750,000,000
Bonds issued to February 4, 1936	<u>2,977,000,000</u>
Available to issue	1,752,000,000

Future requirements as recommended by the Corporation--

1. From exchange for mortgages to complete applications on hand	\$200,000,000	
2. For purchases of shares in savings and loan associations, and Federal Home Loan Bank debentures	275,000,000	
3. For advances on account of borrowers for taxes, insurance, necessary repairs	425,000,000	
4. For taxes on properties foreclosed	50,000,000	
5. For reconditioning properties foreclosed	<u>120,000,000</u>	<u>1,070,000,000</u>
Bond authorization not needed		\$682,000,000

The Home Owners' Loan Corporation recommend the cancellation of its total bond authorization by \$700,000,000, thus reducing the total bond authorization to \$4,050,000,000.

There is a question as to whether the Corporation will need all of the suggested reserve of \$1,070,000,000 for the five items mentioned above. It is thought that the purchase of shares in savings and loan associations might be curtailed, say reduced to \$100,000,000 as a total, thus saving an additional \$200,000,000 of this authorization.

It is suggested that a total of not more than \$675,000,000 constitute the reserve for items 1, 3, 4 and 5, which together with the \$75,000,000 for item 2, would make a total reserve of \$750,000,000 to be deducted from the total available for issue, or a saving of \$1,000,000,000 in bond authorizations, instead of \$700,000,000 proposed by the Corporation.

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Reconstruction Finance Corporation

General purposes		\$3,750,000,000
Notes outstanding		<u>2,303,600,000</u>
Available for additional loans		1,446,400,000
Committed (includes \$100M for relief)		<u>928,000,000</u>
Free available balance		518,400,000
Specific purposes:		
Home loan bank stock	27.6	
Committed	<u>27.3</u>	300,000
Farm Mortgage Relief Act	97.4	
Committed	<u>97.6</u>	- -
Insurance Companies	44.9	
Committed	<u>4.</u>	40,900,000
Federal Deposit Insurance Corp.		250,000,000
Public Works Administration	125.4	
Committed	<u>86.8</u>	40,600,000
Mortgage loans	90	
Committed	<u>12.</u>	78,000,000
Unlimited purposes:		
Preferred stock, etc., (estimated \$50M additional)		
National Housing Act (Estimated \$200M - may be reduced to \$150M or \$100M)		
		<u>\$928,200,000</u>

February 8, 1936. 131

A group met in Room 184, Treasury Building, at 11:00 A.M. to discuss a memorandum to be prepared for the White House on lending agency activities.

Those present were:

Henry Morgenthau, Jr. Secretary of the Treasury,  
T.J. Coolidge, Under Secretary of the Treasury,  
D.W. Bell, Acting Director of the Budget,  
C.V. Opper, Assistant General Counsel,  
E.F. Bartelt, Chief Accountant, Accounts & Deposits,  
R.C. Patterson, Investigator, Bureau of the Budget,  
W. Lindow, Bureau of Research & Statistics,  
H.C. Murphy, Bureau of Research & Statistics,  
C.B. Upham, Assistant to the Secretary.

The various memoranda which had been prepared on each of the lending agencies and containing suggestions for cancellation of bond authorizations, etc. were reviewed and discussed.

They were all turned over to Mr. Bell for the purpose of consolidation into a shorter document for presentation to the President this afternoon.

Attached are copies of the various memoranda and those later prepared by Mr. Bell for submission to the White House.

I. LIQUIDATION OF ASSETS WHICH WOULD IMPROVE THE BUDGET SITUATION.

Farm Credit Administration-

1. Bank for Cooperatives.-- This organization has a capital of \$134,000,000, all owned by the United States Government. On December 31, 1935, it had outstanding loans amounting to \$50,000,000. Other assets held by this organization were Government securities amounting to \$38,000,000, and Federal Farm Mortgage Corporation bonds amounting to \$43,000,000, or a total of \$81,000,000. It is suggested that the capital be reduced to \$75,000,000, thus saving \$59,000,000 to the Treasury. In reducing this capital it would be necessary to sell on the market some of the Government and Federal Farm Mortgage Corporation securities. The proceeds of this sale would come into the Treasury as a receipt, and thereby reduce the deficit by that amount. \$59,000,000

2. Production Credit Corporations.-- The capital of these organizations is \$120,000,000, all of which is owned by the Government. These corporations have purchased stock in production credit associations to the extent of \$77,000,000, leaving \$43,000,000 of its capital intact. Of this sum \$20,000,000 is invested in Federal Farm Mortgage Corporation bonds, \$21,000,000 in Land Bank bonds, and \$2,000,000 in Government securities. It is suggested that the capital be reduced to \$100,000,000, thus saving \$20,000,000. The sale of the securities held by these Corporations would have the same effect on the Budget as the sale of the securities held by the Bank for Cooperatives. 20,000,000

3. Subscription to Capital Stock of Federal Land Banks.-- There is a revolving fund on the books of the Treasury originally amounting to \$125,000,000, which has been invested in capital stock of the various Federal Land Banks. The law provides that 25% of the subscriptions to the capital stock of Federal Land Banks by national farm loan associations and by individual borrowers shall be applied to the retirement of this Government-owned capital stock. Proceeds from this retirement are deposited in the revolving fund and are available for reinvestment in Land Bank stock upon the approval of the Governor of the Farm Credit Administration. If the provision creating the revolving fund could be repealed the repayment of capital stock would be covered into the Treasury as a miscellaneous receipt. This would increase our receipts and decrease our deficit. It is estimated that approximately \$1,500,000 will be deposited in the Treasury during the remainder of the current fiscal year, and approximately \$2,600,000 during the fiscal year 1937. 1,500,000

-2-

Federal Deposit Insurance Corporation and Federal Savings and Loan Insurance Corporations.-- The Federal Deposit Insurance Corporation has a capital of about \$300,000,000, invested for the most part in Government securities. It has insurance in force/ about \$17,000,000,000.

The Federal Savings and Loan Insurance Corporation has a capital of \$100,000,000 invested in Home Owners' Loan Corporation bonds. It has insurance in force of about \$649,000,000.

It is suggested that a study be made of these two organizations to see whether or not the Federal Savings and Loan Insurance Corporation can be consolidated with the Federal Deposit Insurance Corporation with a possible reduction in total capital structure of \$50,000,000, the liquidation of which should be in the Government's contribution to the Federal Deposit Insurance Corporation capital. \$50,000,000

Reconstruction Finance Corporation.-- Suggest curtailment of loaning activities of this Corporation on general account so that receipts may benefit Treasury and reduce Budget requirements. Also suggest that some of the stronger banking institutions be canvassed to see if the preferred stock owned by the Government in such institutions cannot be retired.

In other words, so far as possible make the Reconstruction Finance Corporation a liquidating agency. If this is done we may increase our receipts by more than \$100,000,000. 100,000,000

Federal Housing Administration.-- Appraisal fees now charged by the Federal Housing Administration are deposited in the Mutual Mortgage Insurance Fund along with insurance premiums, and invested in Government securities. These fees should be covered into the Treasury as a miscellaneous receipt and thereby add additional receipts to the Budget. It is estimated that such receipts will amount to approximately \$1,300,000 in the fiscal year 1936 and \$2,500,000 in the fiscal year 1937. 1,300,000

Cotton Transactions.-- To the extent that the Secretary of Agriculture is able to dispose of the cotton held in the cotton pool the Budget situation will be benefited. In other words, if he were permitted to sell spot-cotton of 642,000 bales at, say \$60 per bale, it would return to the Treasury approximately \$38,000,000. 38,000,000

## Farm Credit Administration

I. Recovery of Assets and Reduction in Expenditures1. Capital stock of Banks for Cooperatives.

On December 31, 1935, the United States Government owned \$154 millions of the capital stock of the banks for cooperatives. On the same date, outstanding loans of these banks amounted to \$50 millions. Investments in Government and Government-guaranteed securities were in excess of \$81 millions. There would seem to be no reason why the Government investment in the capital stock of these banks should not be reduced by about \$50 to \$75 millions, especially since the banks have a further source of loan funds through rediscounting eligible paper with the Federal intermediate credit banks, and the central bank may issue collateral trust debentures similar to those already issued by the Federal intermediate credit banks.

2. Capital stock of Production Credit Corporations.

Each production credit corporation is authorized by law to invest with others in the Class A stock of each production credit association in its district an amount approximately equal to 20 percent of the actual or expected volume of loans outstanding. On December 31, 1935, the Government owned \$120 millions of the capital stock of production credit corporations, which, in turn, had invested about \$77 millions in the Class A stock of associations, which leaves a margin of about \$45 millions. It would appear that the Government investment in the stock of the corporations could be reduced, especially if the corporations, in turn, reduced their investment in association stock. Further study would be necessary to determine what reductions could be made without impairing the possibility of reasonable expansion in the system.

3. Administrative expense.

During the first seven months of the fiscal year 1936, the Farm Credit Administration spent \$1,362,000 less for administrative expense than had been estimated for these months in the budget. It might be advisable to reduce the estimate for administrative expense for the fiscal year 1936 by at least a portion of this amount.

4. Reconstruction Finance Corporation loans to Federal land banks.

As of December 31, 1935, Federal land bank loans from the Reconstruction Finance Corporation amounted to slightly more than \$45 millions. It may be that these loans could be partially repaid, thus releasing funds to the Reconstruction Finance Corporation which, in turn, would make them available to the Treasury, through repayment of its notes held by the Secretary. It might be possible for those banks having Reconstruction

- 2 -

Finance Corporation loans to apply against them a portion of payments received from the Treasury for paid-in surplus. This would be possible only to the extent that such payments are not needed for operating expenses and new loans.

5. Subscriptions to Capital Stock of Federal land banks.

The law provides that 25 percent of subscriptions to the capital stock of Federal land banks by national farm loan associations and by individual borrowers shall be applied to the retirement of Government-owned capital stock. The proceeds from the retirement of this stock are available for reinvestment in land bank stock upon the approval of the Governor of the Farm Credit Administration. According to budget estimates, reinvestments in capital stock will amount to \$3,862,535 in the fiscal year 1936 and \$2,625,000 in the fiscal year 1937. It would seem advisable to consider the possibility of deferring or discontinuing further reinvestments in Federal land bank capital stock, and of covering the proceeds from the retirement of the stock into the Treasury as a miscellaneous receipt. This procedure, however, may involve the necessity of legislation. If this policy were made effective as of February 1, 1936, the proceeds of retirements of Government-owned stock would provide the Treasury with \$1,500,000 in the remaining months of the fiscal year 1936, and with \$2,625,000 in the fiscal year 1937.

6. Paid-in surplus of Federal land banks.

The law states that no payment on the principal of mortgages can be required by the Federal land banks during the five-year period ending July 11, 1938, where borrowers are not in default with respect to other covenants of their mortgages. Subscriptions to paid-in surplus by the Treasury constitute a reimbursement to the banks for the amount of such deferments. These subscriptions are estimated in the budget at over \$17 millions in the last half of the fiscal year 1936 and \$41 millions in the fiscal year 1937, making a total of almost \$59 millions. In view of the improvement in agricultural conditions in the last year, it seems reasonable that more borrowers should be able to meet current payments, and that the amount of subscriptions to paid-in surplus may well be less than has been estimated in the budget. Limitations of available data, however, preclude the making of any revised estimates.

7. Possible dividends on investment in capital stock of Federal Farm Mortgage Corporation.

A thorough examination of the complicated finances of the Federal Farm Mortgage Corporation may disclose the possibility of payments, if not on account of retirement of capital investment, at least of some annual return in the nature of dividends resulting from interest accruing on loans in excess of interest expense on bonds and administrative expenses. No

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II. Release of Unnecessary Appropriations

As of December 31, 1935, unobligated balances in crop and production loan accounts were as follows:

Crop and production loans, 1935-6	\$ 19,874,715
Crop and production loans, 1934-5	19,678,041
Loans in stricken agricultural areas, 1934-5	5,181,599
Emergency crop loans, 1932-3	<u>25,650,605</u>
Total	<u>\$ 70,384,960</u>

The estimated obligations of these funds for the remainder of the fiscal year 1936 and all of the fiscal year 1937 have been deducted in determining the above amounts. It would seem desirable to release these unobligated balances in order to forestall additional legislation which might reappropriate these sums.

No allowances have been made in determining the foregoing figures for receipts into these accounts before June 30, 1937 brought about by the repayment of loans. According to figures in the budget, the estimated amount of such receipts in the last half of the fiscal year 1936 and the fiscal year 1937 will aggregate in excess of \$24 millions. As these repayments are received, equal amounts can be released from the respective appropriations. It should be noted that the unobligated balance in the 1932-3 emergency crop loan account is under consideration by Mr. Bell for transfer to the Treasury, subject to consent of the Reconstruction Finance Corporation, unless it is to be made available for the purchase of capital stock of the proposed Forest Corporation now under consideration for legislative action.

III. Release of Appropriation still Legally Available  
But not Likely to be Used

The Reconstruction Finance Corporation is authorized and directed to make available, until May 13, 1937, \$100 millions for the purpose of making loans to joint stock land banks. In view of the fact that only a very small portion of this appropriation has ever been used and that estimates in the budget indicate that no loans are expected to be made before the expiration date, it would seem desirable to rescind substantially all of this appropriation. As of December 31, 1935, the unobligated balance was in excess of \$99 millions.

IV. Reduction in Authorized Borrowing Power of  
Federal Farm Mortgage Corporation

Although the Federal Farm Mortgage Corporation is authorized to have \$2 billions in bonds outstanding, the actual amount outstanding on December 31, 1935 was only slightly over \$1,587 millions. The proceeds from the sale of these bonds (or the bonds proper) are used to finance Federal land banks and to make direct mortgage loans (Cosmopolitan loans). In view of the fundamental improvement in agricultural conditions, it seems likely that the expansion of mortgage loans will be at a decreasing rate; and the improved financial structure of the Federal land banks should result in a reduction in the amount of financial assistance needed from the Corporation. It might be possible, therefore, to reduce the bond authorization of the Corporation by from \$200 to \$400 millions.

Summary of Possible Savings in  
Farm Credit Administration

I. Recovery of assets and reduction in expenditures

	fiscal year	
	1936	1937
Reduction in capital stock of banks for cooperatives	\$75,000,000	—
Saving in administrative expenses, first seven months, fiscal year 1936	1,362,000	—
Retirements of Government-owned capital stock of Federal land banks	1,500,000	\$ 2,625,000
Reduction in capital stock of production credit corporations (Amount uninvested in production credit associations as of Dec. 31, 1935, \$45 millions)		Not estimated
Repayment of Federal land bank loans to Reconstruction Finance Corporation		Not estimated
Reduction in subscriptions to paid-in surplus of Federal land banks		Not estimated
Possible dividends on investment in capital stock of Federal Farm Mortgage Corporation		Not estimated

II. Reductions in Appropriations

Crop and production loans (unobligated balance 12/31/35 (repayments before 6/30/37)	\$ 70,384,960 24,000,000
Loans to joint stock land banks	99,000,000

III. Reduction in Borrowing Power of  
Federal Farm Mortgage Corporation

Unused borrowing power as of December 31, 1936	612,000,000
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FEB 8 1936

BUREAU OF THE BUDGET

W. I. MYERS  
GOVERNORFARM CREDIT ADMINISTRATION  
WASHINGTON, D. C.

February 8, 1936

Hon. D. W. Bell,  
Acting Director of the Bureau of the Budget,  
Washington, D. C.

My dear Mr. Bell:

Following the visit of representatives of your office on February 5, we have reviewed the various funds of the Farm Credit Administration with the view of amplifying our statement to them regarding unobligated balances and authorizations which might be considered available for transfer to Treasury surplus. After a careful review, it is my opinion that the following sums from the appropriations and authorizations listed below may be transferred to Treasury surplus without detriment to the operations of the Farm Credit Administration:

CASH ON HAND

As of December 31, 1935

	<u>Treasury</u> <u>Cash</u>	<u>D.O.</u> <u>Cash</u>	<u>Total</u>	<u>Obligations</u>	<u>Available for</u> <u>Transfer to</u> <u>Treas. Surplus</u>
08563A Emergency Farm Credit Relief, Special Fund (Available for administrative expenses in connection with crop production loans of 1932 and 1933, Acts of January 22, 1932 and February 4, 1933)	\$ 25,137,091	\$ 1,138,514	\$ 26,275,605	\$ 525,000	\$ <sup>a/</sup> 25,750,605
04/5-578 Farmers' Crop Production and Harvesting Loans, Farm Credit Administration, 1934-1935 (Available for making loans to farmers, and administrative expenses in connection therewith, Act of February 23, 1934)	19,731,926	346,115	20,078,041	400,000	19,678,041

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(Cont'd)

	<u>Treasury Cash</u>	<u>D.O. Cash</u>	<u>Total</u>	<u>Obligations</u>	<u>Available for Transfer to Treas. Surplus</u>
05/6-578 Farmers' Crop Production and Harvesting Loans, Farm Credit Administration, 1935 and 1936 (Available for making loans to farmers and administrative expenses in connection therewith, Act of February 20, 1935)	\$ 19,794,096	\$ 4,359,570	\$ 24,153,666	\$ <sup>b/</sup> 4,278,951	\$ 19,874,715
04/5-513.2 Loans and Relief in Stricken Agricultural Areas, 1934- 1935 (Available for making drought relief loans, and administrative expenses, Emergency Appropriation Act of June 19, 1934)	5,929,217	352,382	6,281,599	1,100,000	5,181,599
04/565 Salaries and expenses, Farm Credit Administration - 1934	236,754	3,428	240,182	--	200,000
05/565 Salaries and expenses, Farm Credit Administration - 1935	248,731	15,666	264,397	--	100,000

a/ Any transfer to General Fund, Treasury, should be made with concurrence of Reconstruction Finance Corporation, and then only in case present plans for using this fund for proposed Forest Corporation (legislation pending) are abandoned. (See my letter to Director Bell dated November 2, 1935.)

b/ Includes \$1,172,723.85 to cover administrative expense for the remainder of the fiscal year of 1936, allocation of \$1,450,000.00, administrative expense for the fiscal year 1937 of \$1,156,227.15 for unfulfilled commitments to be disbursed from fund.

Under sections 30 and 31 of the Act of May 12, 1933, as amended by the Farm Credit Act of 1935, the Reconstruction Finance Corporation was authorized and directed to make available to the Farm Credit Administration \$100,000,000 for the purpose of making loans to joint stock land banks in order to assist in their liquidation and to grant benefits to

Hon. D. W. Bell ... 3 - 2-8-36

their borrowers under certain conditions. The status of this fund is as follows:

	<u>Treasury</u> <u>Cash</u>	<u>D.O.</u> <u>Cash</u>	<u>Total</u>	<u>Obligations</u>	<u>Available for</u> <u>Transfer to</u> <u>Treas. Surplus</u>
08570 Joint Stock Land Bank Liquidation and Emergency Funds, 1933 -- May 12, 1935. Special Fund (Avail- able for loans and admin- istrative expenses in con- nection therewith, Section 30(a) Emergency Farm Mort- gage Act of 1933)	\$  \$97,400,000 2,245,477	\$  85,170	\$  99,730,647	\$  -	\$  -

a/ With Reconstruction Finance Corporation, subject to requisition if required for the purposes covered by Sections 30 and 31, Act of May 12, 1933, as amended. Any transfer to General Fund, Treasury, of funds previously advanced by the Reconstruction Finance Corporation, (including repayments of loans), is subject to concurrence of the Reconstruction Finance Corporation.

To date it is evident that there has been very little demand for this type of loan, but in view of the possibility of change in the financial situation of the joint stock land banks due to the progress made in their liquidation, it is likely that there will be an increased demand under these sections. By the Act of June 3, 1935, Congress extended the time during which these loans could be made for two years from May 12, 1935. In our opinion, the Reconstruction Finance Corporation could now be relieved of the duty of supplying the sum of \$65,000,000 of the \$100,000,000, leaving a total balance of \$35,000,000 which we believe would be adequate for all the purposes that we can foresee in connection with such loans, distributed as follows: \$25,000,000 under section 30 and \$10,000,000 under section 31. Any transfer to the general fund of the Treasury of funds previously advanced by the Reconstruction Finance Corporation (including repayment of loans) is, we believe, subject to the concurrence of the Reconstruction Finance Corporation. In the event that legislation is contemplated in order to reduce the amount authorized, this office would wish the opportunity of making certain suggestions with regard to the provisions in sections 30 and 31, requiring apportionment of the funds among the various banks.

We have also reviewed the situation with regard to the Federal Farm Mortgage Corporation, created by the Act approved January 31, 1934. In

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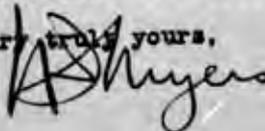
In addition to the \$200,000,000 capital stock, the Act authorized the Corporation to issue and have outstanding at any one time bonds in an amount not exceeding \$2,000,000,000. In the case of the Corporation the original authorization was never increased in amount. As of January 31, 1936, \$1,398,770,000 in bonds were outstanding. The proceeds of the sale of these bonds have been used primarily for two purposes, (1) the purchase of bonds from Federal land banks in order to finance their lending operations during the period when the sale of their own bonds in the open market was impractical, and (2) the making of Commissioner's loans. Although the land banks started in January 1936 to finance their own cash requirements, and it is hoped that market conditions will permit them to continue to do so, there is no assurance that it may not be necessary for them to return to the Federal Farm Mortgage Corporation for new money requirements in the future.

Federal Farm Mortgage Corporation funds have been used for the most part thus far in the financing of farm mortgage debts. However, by the terms of the Farm Credit Act of June 3, 1935, the period for which Commissioner's loans could be made was extended to July 1, 1940, and at the same time the purposes for which these loans could be made were broadened. One of the principal changes under these amendments was to enable the Corporation to make loans to qualified tenants and other young farmers to assist in financing the purchase of farms, since the normal movement of young men toward farm ownership had been delayed and almost stopped because of the depression. With regard to the financing of acquisition of farms, it is too early to make any definite estimates with regard to the sums that will be required from the Corporation for that purpose.

Any decline in farm prices or an extraordinary agricultural situation might cause an unexpected resumption of applications for Commissioner's loans, which are still being closed at the rate of approximately \$10,000,000 per month.

In view of the foregoing it is my considered opinion that it would be inadvisable to revoke any part of the authority to issue bonds on the part of the Federal Farm Mortgage Corporation under existing conditions.

Very truly yours,



Governor

## Government Agencies Dealing in Agricultural Commodities

## SUMMARY OF RECOMMENDATIONS

Upon the basis of the facts presented in the attached memorandum, it would appear advisable, if legally and otherwise feasible;

(1) That the RFC subscribe to an additional \$150 millions of capital stock of the CCC, the proceeds thereof being used to reduce by an equal amount the debt of the CCC to the RFC,

(2) That the CCC borrow from banks approximately \$185 millions, secured by 5,061,507 bales of cotton (approximately \$36.50 a bale), and possibly guaranteed by the RFC or the United States, using the proceeds thereof to retire its entire remaining debt to the RFC of approximately \$147 millions and to purchase from the Cotton Pool its entire holdings of 642,000 bales of cash cotton for \$58.5 millions,

(3) That there be cancelled the \$35.5 millions of unused appropriation for the Cotton Pool and that the Pool return to the Treasury the \$38.5 millions received from the CCC for its cash cotton,

(4) That the Cotton Pool liquidate its cotton futures as rapidly as may be, returning the margin deposited therefor to the Treasury,

(5) That the CCC make no further commitments in addition to the 10¢ cotton loan and 45¢ corn loan now pending and liquidate its present stocks of commodities as rapidly as may be, using the proceeds thereof first to retire the bank loan created under (2) above and then to retire its capital stock.

The immediate saving to the budget from this program will be about \$185 millions, of which \$147 millions will be in the form of a credit from the RFC, and \$58 millions in the form of a return from the Cotton Pool: These, in a sense, are both merely bookkeeping savings, but if the policies with respect to the handling of commodities suggested in this memorandum are adhered to in the future, the aggregate real savings over the next five years will be very substantial.

*Important thing, is method of sale and  
question of future advances. I have no desire  
to have government owned agencies borrow  
from the public.*

### Government Agencies Dealing in Agricultural Commodities

There are three Government agencies dealing in agricultural commodities in a significant degree. One of these, the Federal Surplus Commodities Corporation (formerly the Federal Surplus Relief Corporation) has a very small inventory of such commodities which will be for the most part distributed for relief purposes and may be ignored. The other two are the Cotton Pool, operating under the direction of the Secretary of Agriculture with general Treasury funds, and the Commodity Credit Corporation, financed by Reconstruction Finance Corporation funds.

As of February 5, 1936, the Commodity Credit Corporation had \$297.4 millions outstanding in advances against agricultural commodities, principally cotton, and had a cash balance to its credit in the Treasury of \$5.3 millions. Against such total assets of approximately \$300.7 millions the Corporation had a net worth of about \$5.7 millions and owed the Reconstruction Finance Corporation \$297 millions. As security for its advances, the CCC held small amounts of corn, turpentine, and rosin, and 4,419,507 bales of cotton.

If the RFC would subscribe to an additional \$100 millions of capital stock of the CCC, the proceeds thereof being used by the CCC to retire an equivalent amount of notes due to the RFC, there would be no net effect on the budget, since the total of proceeds disbursed less repayments of the RFC would remain unchanged. Such a transaction, however, would reduce the total liabilities of the CCC (all due to the RFC) to approximately \$197 millions. Such liability would amount to approximately \$44.50 per bale of cotton held, and the CCC would hold in addition free from lien about \$5.3 millions of cash, about \$2.2 millions face amount of loans on corn, and turpentine and rosin worth about \$5 millions pledged as security for about \$6 millions of loans owing to the CCC. If the \$197 millions item could be financed by a bank loan, the entire \$197 millions would appear as a credit in the accounts of the RFC and consequently as a reduction in expenditures for the fiscal year 1936.

If the amount of capital of the CCC subscribed by the RFC should be \$125 millions, the net relief to this year's budget would be reduced to approximately \$172 millions, and the amount which it would be necessary to borrow per bale of cotton reduced to \$39.00.

One hundred million dollars has been appropriated directly from the Treasury for the use by the Secretary of Agriculture in handling the so-called Cotton Pool. Of this amount, \$35.5 millions has not been drawn down, and stands to the credit of the Pool as an unexpended appropriation on the books of the Treasury. If this entire amount should

be cancelled, it would have no effect upon reported receipts or expenditures except as it might curtail the subsequent activities of the Pool.

Of the remaining amount, \$42 millions has been paid by the Treasury to the Pool for the payment of charges against 642,000 bales of cotton currently held by the Pool. The other \$22.5 millions disbursed for this account has been used by the Secretary for purchasing cotton futures. The Pool holds somewhere in the neighborhood of one million bales of such futures, against which it has \$15 per contract deposited as margin.

The futures seem to have been acquired by the Pool for the purpose of "stabilizing" the cotton market, and nothing can be done about them except to urge their liquidation as soon as may be. Fifteen dollars margin plus or minus profit or loss will be returned to the Treasury for each bale of futures disposed of, and such money will be a credit against expenditures in the year returned.

It would seem advisable that the 642,000 bales of cash cotton held by the Pool should be sold to the CCC. At \$60 a bale, a total of \$38.5 millions would be paid by the CCC to the Pool for such cotton, and the entire amount thereof would be returned to the Treasury and would serve as a credit against expenditures in the fiscal year 1936. Sixty dollars a bale is a price for this cotton which the farmers having an interest in the Pool can hardly object to.

If the additional capital paid by the RFC to the CCC as proposed above should be only \$100 millions and the CCC purchased the entire cash cotton of the Cotton Pool (increasing its total holdings to 5,061,507 bales), the total credit against expenditures for the fiscal year 1936 would be approximately \$236 millions, and an equal amount of cash would have to be borrowed from the banks, amounting to approximately \$46.50 a bale. A loan of such an amount would probably require a guarantee by the RFC or by the United States.

If the capital advanced by the RFC to the CCC should be increased to \$125 millions, the total net credit against expenditures would be reduced to approximately \$210 millions and the necessary bank loan to approximately \$41.50 a bale, and if \$150 millions in capital should be advanced by the RFC to the CCC, the total credit against expenditures would be reduced to approximately \$185 millions, and the necessary bank loan per bale of cotton would be reduced to approximately \$36.50.

All the transactions discussed above (except the suggested liquidation of future contracts held by the Cotton Pool) are mere bookkeeping transactions, and while probably justified by the favorable effect which they will have on the 1936 budget, have the offsetting disadvantage that the rate of interest which will have to be paid by the CCC for the proposed bank loan will doubtless be higher than that which the Treasury would have to pay for loans of equivalent maturity.

In order to effect a substantial saving, a real liquidation would have to be effected in the underlying commodity transactions. Mr. Rathell of the CCC states that to go through with the current commitments for the 10¢ cotton loan and the 45¢ corn loan will probably require peak disbursements this year of not more than \$30 millions in addition to the funds already disbursed and that this money will probably all be back in the Corporation by the end of the summer. The problem would then seem to be to avoid new commitments and to liquidate the present ones.

At an average rate of liquidation of 1,250,000 bales a year, it will require four years to liquidate the cotton already held by the CCC and Cotton Pool. A pending bill by Senator Smith of South Carolina would instruct the CCC to dispose of not less than 20,000 nor more than 25,000 bales of cotton a week (1,040,000 to 1,300,000 bales a year). A liquidation of 1,250,000 bales a year, assuming average 12¢ cotton, would provide a gross real return from the CCC on account of present commitments of \$75 millions a year for four years.

## FEDERAL DEPOSIT INSURANCE CORPORATION

The Treasury has invested approximately \$300 million of the capital funds of the FDIC in Government securities. \$100 million of this is in a special ~~2%~~ FDIC demand issue. Nearly \$200 million is in public issues.

Consideration might be given to replacing \$100 million to \$150 million of the second classification of their investment with another special FDIC demand note. This could perhaps be arranged by direct negotiation with the Corporation, no legislation or other outside action being necessary.

February 6, 1936.

## MEMORANDUM FOR MR. BELL:

Re: Transfer of appraisal fees from Reinsurance Fund, Federal Housing Administration, to Miscellaneous Receipts.

On instructions from Mr. Fullaway, Mr. Patterson and I have made contacts with the Federal Housing Administration and the Farm Credit Administration in company with representatives of the Research Division of the Treasury Department.

The following facts were developed at the contact made with the Federal Housing Administration, which we believe will be of interest to you:

1. The Administrator has agreed to transfer some \$800,000 which has been received as appraisal fees to Miscellaneous Receipts when an agreement for this transfer is reached with the Treasury Department. Furthermore, it is expected that from \$75,000 to \$100,000 per month will be collected from the same source for some time to come and these collections will likewise, if the plan goes through, be deposited to the credit of Miscellaneous Receipts.
2. The Administrator is apparently favorable to a plan under which \$50,000,000 will be made available for financing projects during construction periods, the thought being that when construction is completed some outside agency will then do the necessary financing for loans to be insured under the Federal Housing Act.

LWA:smn



noted P.N.P.

UNITED STATES DEPARTMENT OF AGRICULTURE  
AGRICULTURAL ADJUSTMENT ADMINISTRATION  
WASHINGTON, D.C.

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February 5, 1936.

MEMORANDUM FOR MR. CHESTER C. DAVIS  
ADMINISTRATOR, A. A. A.

Dear Mr. Davis:

Section 3(b), Part I, Agricultural Adjustment Act, appropriates for use of the Secretary of Agriculture for handling cotton, including futures \$100,000,000

Of this amount there may be, at this time, returned to the Treasury by some appropriate action 25,000,000

Of the sum appropriated there has been advanced to the Secretary for handling cotton futures 22,500,000

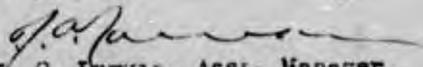
For payment of debts owing on spot cotton, warehouse charges, etc., 42,000,000

For the sums so advanced returns may be made to the Treasurer:

- (a) Assuming spot cotton may be sold at \$60 per bale, the proceeds from 642,000 bales - \$38,520,000, which sum will be returned as and when this spot cotton is sold ~~and~~ liquidation of the Pool.
- (b) As futures are sold in liquidation there may be returned \$15 per contract, this representing margins to the brokers and deposits with banks.

Of the \$22,500,000 advanced for handling of the futures contracts, there was deposited as of January 31, 1936, \$15,282,740 with brokers and banks. On deposit with the United States Treasury \$2,585,000. There has been absorbed by market fluctuations and purchases \$4,682,260.

Yours very truly,

  
J. O. Dumkin, Assy. Manager,  
Cotton Pool.

## II. LIQUIDATION OF ASSETS WHICH WOULD IMPROVE THE PUBLIC DEBT SITUATION

Loans to Industry, Federal Reserve System.—Federal Reserve Banks are making loans and discounts for industrial purposes under the provisions of the Federal Reserve Act, one half of which are paid from the surplus of the Federal Reserve Banks and the other half paid from an appropriation made by Congress amounting to \$139,000,000 out of the increment resulting from the reduction in the weight of the gold dollar. Up to date the banks have only used about \$23,000,000 of this appropriation, leaving approximately \$113,000,000 still available in gold. It is suggested that this authority be repealed except to liquidate commitments now on the books and thereby save approximately \$100,000,000. This saving would not, however, affect the Budget unless the gold increment was covered into the Treasury as a receipt. In view of the policy already announced that this increment would be used to retire the public debt, it is suggested that it be added to the reserve for the retirement of national bank notes, which is a reduction in the public debt.

\$100,000,000

Philippine Currency.—Congress authorized an appropriation of \$23,863,000 out of the increment resulting from the reduction in the weight of the gold dollar, this being a sum equal to the increase in the value of the gold equivalent of the balances maintained by the Philippine Government in banks in the United States on January 30, 1934, for its gold standard fund and Treasury certificate fund. So far Congress has refused to appropriate this money. If this basic law were repealed the gold held in reserve to meet this authorization could be returned to the general fund for debt retirement purposes the same as the gold mentioned above held for industrial loans through Federal Reserve Banks.

23,863,000

Gold Reserve for Gold Certificates Held by the Public.—The Treasury is holding approximately \$100,000,000 in gold as a reserve against gold certificates (old form) outstanding in the hands of the public. To the extent that they are held by American citizens, no gold will be required to meet their redemption out if held by foreigners gold might be demanded and paid. Many of the certificates will never be presented. It is suggested that legislation be enacted transferring this gold to the general fund for debt retirement purposes and that the gold certificates be made a part of the non-interest bearing public debt.

100,000,000

*Perhaps \$50,000,000*

Public Works Administration.— The Public Works Administration holds approximately \$165,000,000 face amount of obligations representing loans to States and municipalities, railroads, etc., which it contemplates selling to the Reconstruction Finance Corporation, proceeds from which will go into a revolving fund to be used by the Public Works Administration for additional loans. If the Public Works Administration were directed to sell these securities on the market direct the proceeds therefrom would come into the Treasury as a miscellaneous receipt and be available for debt retirement under the National Industrial Recovery Act. This would be a wash transaction in the Budget but would have the effect of reducing Treasury borrowing requirements. \$165,000,000

FEDERAL RESERVE SYSTEM

The Treasury earmarked \$139,299,557 of the increment resulting from the reduction of the weight of the gold dollar as available for payment to Federal Reserve banks for use in making loans and discounts for industrial purposes under Section 13b of the Federal Reserve Act. There still remains under earmark on the Treasury books approximately \$113,000,000 of this amount. Most or all of this could be made available to the Treasury for expenditures other than those occasioned by Reserve Bank industrial loans.

The revocation of this appropriation need not be accompanied by a revocation of the power of Federal Reserve banks to make industrial loans. They have ample resources to meet requirements of this character without recourse to the Treasury. If the authority to make such loans is revoked, the RFC will continue to be able to make them.

While it is true that the Secretary of the Treasury has indicated that the gold increment will be used for debt retirement purposes, this amount has been set aside for other purposes by the Congress, and the action now contemplated would merely divert it from one kind of current expenditure to others.

*Agree should be done.  
 ? May need agreement by Reserve Banks as may be contractual  
 should be used to retire bank notes present gold insufficient  
 figures ?*

PHILIPPINE CURRENCY RESERVE

The Treasury holds under earmark \$23,862,750.78 of the increment resulting from the reduction of the weight of the gold dollar, being an amount equal to the increase in the value of the gold equivalent of balances maintained by the Philippine Government in banks in the United States on January 31, 1934 for its gold standard fund and Treasury certificate fund. While the Congress has authorized the appropriation of this amount out of the receipts covered into the Treasury from the reduction in the weight of the gold dollar, no appropriation of this amount has been made, and it could be restored to the working balance of the Treasury, not under earmark, and made available for general expenditures.

Public Works Administration Loans to States, Municipalities,  
Railroads, etc., and Reconstruction Finance Corporation -  
Public Works Administration Security Transactions

As of December 31, 1935, the Public Works Administration held \$165 millions, face amount of loans to States and municipalities, railroads, etc., and the Reconstruction Finance Corporation held a net amount of \$154 millions of such securities purchased from the PWA and not yet resold. The total amount of such securities held by the PWA and RFC combined, as of this date, was thus approximately \$319 millions. This entire amount, less any items which prove unsalable or have to be disposed of at a discount, will ultimately be returned to the Treasury. In the meantime, the securities earned sufficient interest to carry themselves. The RFC is authorized to have outstanding at any one time up to \$250 millions in advances to the PWA for the purchase of such securities. The funds so obtained by the PWA are reloaned to States. When the RFC first purchases the securities from the PWA the effect on the Treasury accounts is an expenditure in RFC and a repayment in PWA of equal amount. When the PWA makes a new loan the effect is a net expenditure in the Treasury accounts without offsetting credit and when the RFC sells to the market PWA securities the effect is a net credit without offsetting debit.

The perspective speed of liquidation of both the RFC and PWA security transactions could be only ascertained by a detailed inspection of the portfolios, which time is not permitted. When

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PWA securities are sold through the medium of the RFC the monies become available as a revolving fund for further PWA loans so that when such loans have been made and the securities sold by the RFC, no net credit in Treasury accounts results. It is stated, however, that if the securities were sold direct by PWA, the monies would appear as a receipt and would not be available for further PWA loans.

## III. CANCELLATION OF LOAN AUTHORIZATIONS.

Home Owners' Loan Corporation--

Bond authorization	\$4,750,000,000
Bonds issued to February 4, 1936	<u>2,997,000,000</u>
Available to issue	1,752,000,000

## Future requirements as recommended by the Corporation-

1. From exchange for mortgages to complete applications on hand	\$200,000,000	
2. For purchases of shares in savings and loan associations, and Federal Home Loan Bank debentures (\$300,000,000 limit)	275,000,000	
3. For advances on account of borrowers for taxes, insurance, necessary repairs	425,000,000	
4. For taxes on properties foreclosed	50,000,000	
5. For reconditioning properties foreclosed	<u>120,000,000</u>	<u>1,070,000,000</u>
Bond authorization not needed		\$682,000,000

The Home Owners' Loan Corporation recommend the cancellation of its total bond authorization by \$700,000,000, thus reducing the total bond authorization to \$4,050,000,000.

There is a question as to whether the Corporation will need all of the suggested reserve of \$1,070,000,000 for the five items mentioned above. It is thought that the purchase of shares in savings and loan associations might be curtailed, say reduced to \$100,000,000 as a total, thus saving an additional \$200,000,000 of this authorization.

It is suggested that a total of not more than \$675,000,000 constitute the reserve for items 1, 3, 4 and 5, which together with the \$75,000,000 for item 2, would make a total reserve of \$750,000,000 to be deducted from the total available for issue, or a saving of \$1,000,000,000 in bond authorizations, instead of \$700,000,000 proposed by the Corporation.

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Reconstruction Finance Corporation

General purposes		\$3,750,000,000
Notes outstanding		<u>2,203,600,000</u>
Available for additional loans		1,446,400,000
Committed (includes \$100M for relief)		<u>928,000,000</u>
Free available balance		\$18,400,000
Specific purposes:		
Home loan bank stock	27.6	
Committed	<u>27.2</u>	300,000
Farm Mortgage Relief Act	97.4	
Committed	<u>97.4</u>	- -
Insurance Companies	44.9	
Committed	<u>4.</u>	40,900,000
Federal Deposit Insurance Corp.		250,000,000
Public Works Administration	125.4	
Committed	<u>84.8</u>	40,600,000
Mortgage loans	90	
Committed	<u>12.</u>	78,000,000
Unlimited purposes:		
Preferred stock, etc., (estimated \$50M additional)		
National Housing Act (Estimated \$200M - may be reduced to \$150M or \$100M)		
		<u>\$928,200,000</u>

*Try to get \$750,000,000*

## Home Owners' Loan Corporation

As shown on the attached statement, this Corporation had bonds outstanding on January 31, 1936, of approximately \$2,911 millions. To this date \$67 millions of bonds had been retired by the bond retirement fund consisting of principal repayments on mortgage loans. As the authorization of the Home Owners' Loan Corporation is not a revolving fund, the \$67 millions par value of bonds retired must be included with the \$2,911 millions of bonds outstanding in arriving at a figure for the portion of the authorization of the Corporation already utilized.

The statutory lending power of the Corporation expires on June 15, 1936. No new applications for loans have been received since June 27, 1935, and it is expected that lending operations will be completed without difficulty before June 15. One hundred eighty million dollars is the maximum estimate of the amount of bonds which will have to be issued for this purpose. Reserving \$270 millions of bonds for future subscriptions to the fully-paid shares of building and loan associations (a purpose which will be discussed presently) and allowing a reserve for contingencies of \$72 millions, a total authorization of \$3,500 millions ought to be ample for all purposes of the Corporation except advances for the account of borrowers, for taxes, insurance, sums for the reconditioning of properties acquired, etc. The amounts proposed to be used for these purposes, as shown on the "Estimate of Home Owners' Loan Corporation Bond Requirements" submitted by the Corporation to the Treasury last December, appear to be excessive, and Mr. Augustine has explained that a much smaller amount would be required if a revolving fund authorization for this purpose were made. Mr. Augustine states that a \$250 millions revolving fund authorization ought to be ample for this purpose.

From the above data it would appear that the present authorization of \$4,750 millions of Home Owners' Loan Corporation bonds might without any embarrassment to the Corporation or curtailment of prospective functions be cut to \$3,500 millions of bonds on the present basis and a \$250 millions revolving fund authorization for the specific purposes of advances for the maintenance of mortgaged properties, etc., a total authorization of \$3,750 millions or a decrease of \$1 billion under the present authorization.

The Home Owners' Loan Corporation bond authorization might be further reduced by any reduction made in sums authorized to be expended for the purchase of fully-paid shares of building and loan associations.

An original appropriation of \$50 millions was made to the Secretary of the Treasury to subscribe to the fully-paid shares of Federal Savings and Loan Associations, and this sum was completely exhausted in November, 1935. An additional authorization of \$300 millions was made to Home Owners' Loan Corporation by Congress at its last session for the purchase of shares of Federal savings and loan associations, and State-chartered associations, either members of the Home Loan Bank System or insured by the Federal Savings and Loan Insurance Corporation. As the Home Owners'

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Loan Corporation raises the moneys to purchase such shares by the sale of its bonds in the open market, sums so expended do not enter into the budget. Total disbursements by the Home Owners' Loan Corporation for this purpose to the end of January were about \$30 millions, leaving still unexpended the \$270 millions item allowed for in the attached table and mentioned in the above discussion.

The purchase of these fully-paid shares seems to be a peculiarly unjustified form of expenditure. The purchase of such shares is, of course, equivalent to making a deposit in the associations, and the only restriction upon the amount of shares which may be purchased in any association is that the Federal moneys shall not exceed three times those of the private shareholders. The moneys once deposited bear interest at the same rate as paid to private shareholders and cannot be withdrawn save at the option of the association. The Government's only recourse in case of bad management or misuse of the funds seems to be to request the appropriate court for the appointment of a receiver. The theory behind the purchase of these shares seems to be that it is an indirect way to increase the amount of money which will be lent for home construction. No particular limitations are laid down, however, on the uses which the associations may make of the funds so put at their disposal. It is somewhat as if the Comptroller of the Currency had a fund with which to make permanent deposits in such national banks as he believed could use them to advantage.

If the authorization for this purpose could be reduced by \$250 millions, the total bond authorization of the Home Owners' Loan Corporation might be further reduced to \$3,500 millions, of which \$3,250 millions would be for bonds to be used once and \$250 millions as a revolving fund.

#### Summary

The suggestions discussed above would result in a cut in the total bond authorization of the Home Owners' Loan Corporation from \$4,750 millions to from \$3,500 millions to \$3,750 millions, depending upon what reduction, if any, was made in the authorization for the purchase of fully-paid shares of building and loan associations. No curtailment is proposed in the other activities of the Corporation, which are in any event drawing rapidly to a close.

The budget would not be affected either in this year or in any subsequent one except as some loss might be avoided at a future date on shares of building and loan associations. Congressional action would be required to reduce the total bond authorization, to convert \$250 millions of it to a revolving fund, and probably to reduce the authorization for the purchase of fully-paid shares of building and loan associations.

? Parcel - final  
See above table - same table, but:

## Home Owners' Loan Corporation Bond Authorization

(In millions of dollars)

Bonds outstanding, January 31, 1956		2,911
Retired by Bond Retirement Fund		<u>67</u>
Authorization already used		2,978
Additional Refinancing	180	
Additional Building and Loan Shares	270	
Contingencies	<u>72</u>	<u>522</u>
		3,500
Revolving Fund for Advances, etc.		<u>250</u>
Total necessary bond authorization		3,750*
Authorization which may be cancelled		<u>1,000</u>
Total present authorization		<u><u>4,750</u></u>

\*Less any amount by which the authorization for the purchase of fully-paid shares of building and loan associations may be reduced.

FEDERAL HOME LOAN BANK BOARD  
WASHINGTON

OFFICE OF  
JOHN H. FAHEY  
CHAIRMAN

February 7, 1936.

Honorable Daniel W. Bell, Acting Director,  
Bureau of the Budget,  
U. S. Treasury Department,  
Washington, D. C.

Dear Mr. Bell:

I have been advised that the following estimates regarding the Home Owners' Loan Corporation should be submitted to you today:

- (a) The amount of our bond authorization that will not be needed.
- (b) The amount of assets that can be liquidated and the proceeds returned to the Treasury.
- (c) The amount by which expenses can be reduced.

My comments on these three subjects are:

(a) On the basis of the law as it exists, we believe, by exercising every possible precaution and in view of changed conditions, \$700,000,000 of our bond authorization can be cancelled. Beyond this our Board does not believe it would be safe to go.

Item 1 on the accompanying schedule of bonds available and our estimates of future requirements is the amount which we believe it is safe to ~~may~~ will not be exceeded, in completing the applications now pending, together with those which may be reopened for consideration.

The Members of the Board believe that the full amount now available in Item 2 is needed and is essential to accelerate the increasing volume of home construction, as the experience of the past year has demonstrated. The Federal savings and loan associations are proving most effective instrumentalities for reviving private finance. They are making home mortgage loans in steadily increasing numbers in every section of the country, at reasonable rates, to a class of home owners who, with a few exceptions, are not served by any other class of lending agencies. These are the people who build or buy homes of a value from \$5,000 down — the very people who most need the advantage of low interest rates and reasonable terms. Any

Honorable Daniel W. Bell,  
February 7, 1936.

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reduction of the \$300,000,000. set aside by Congress would curtail the formation of new and the expansion of existing Federals. It would have a corresponding effect on the State associations which can qualify.

Reports of Federal savings and loan associations actually received to date show that \$106,931,958. was loaned on homes during 1935 by these associations. 41.2% of this was for refinancing and 58.8% for new construction, reconditioning, or purchase of homes. For December alone they advanced \$10,516,548. or more than all the life insurance companies in the country lent on non-farm homes during that month. Of this amount, 68.1% was for new construction or home purchase and 31.9% for refinancing. The dividends received by the Government on shares in these associations exceed the interest rate on the bonds and there is practically no risk on the investment. The encouragement given to home building and reasonable home finance by these institutions, therefore, costs the Government nothing.

The amount shown in Item 3 is the result of a revision downward of previous estimates. Items 4 and 5 are the minimum amounts which should remain available. It would be a grave mistake to under-estimate future requirements, resulting in the Corporation being inadequately financed. The effect on public confidence of such a development would be very serious.

(b) As of February 4, we had retired and cancelled from repayments received from borrowers, \$67,453,800. of our bonds, and it is expected that receipts of this character will be sufficient to pay off in cash at maturity on August 15, 1936 the entire issue of the Corporation's "Series C" bonds, amounting to \$49,736,000.

(c) The amounts approved by you for administrative expenses for the fiscal years 1936 and 1937 will necessitate a drastic reduction in expenses. Included in the amounts approved by you were substantial sums in both years designated as Administrative Reserves. Every effort is being made in planning our future operations to keep our expenses within the amounts approved by you. There is a point beyond which the elimination of personnel required to contact our delinquent borrowers will be very much more costly than any saving that would result. Unless a sufficient number of men, properly trained, are kept in contact with our borrowers when they first become delinquent, the losses to the Corporation will be greatly increased. In our opinion, it will be necessary to use the amounts deducted as Administrative Reserves, particularly in the fiscal year 1937.

Sincerely yours,

*John H. Fehey*  
John H. Fehey,  
Chairman.

HOLC BONDS AVAILABLE AND FUTURE REQUIREMENTS

Total Amount of Bonds Authorized		\$4,750,000,000.
Bonds Outstanding February 4, 1936	\$2,919,352,325.	
Matured Bonds (Interest ceased)	10,374,800.	
Bonds Retired	67,453,800.	
		<u>2,997,180,925.</u>
Available to issue		\$1,752,819,075.

FUTURE REQUIREMENTS

1. For exchange for Mortgages to complete applications on hand.	200,000,000. ✓	
2. For purchase of shares in Savings and Loan Associations and Federal Home Loan Bank Debentures.	275,000,000.	
3. For advances for account of Borrowers for Taxes, Insurance, and necessary repairs.	425,000,000. ✓	
4. For Taxes on Properties foreclosed.	50,000,000. ✓	
5. For reconditioning Properties foreclosed.	120,000,000. ✓	
		<u>1,070,000,000.</u>
Bonds not needed		<u>\$ 682,819,075.</u>

RECONSTRUCTION FINANCE CORPORATION

(As of January 31, 1936)

(In millions of dollars)

	Amount author- ized	Notes out- standing	Balances which may be issued	Undis- bursed commit- ments	Unob- ligated balan- ces
<b>I. General Purposes:</b>					
Original Act as amended . . .	3,300.0				
Less - NIR Act 6/16/33. . .	400.0				
	<u>2,900.0</u>				
Act of Jan. 20, 1934 (Public 84) . . . . .	850.0				
	<u>3,750.0</u>	2,303.6	1,446.4	928.0	518.4
<b>II. Allocations and Relief:</b>					
Home Loan Bank Stock, Act 7/22/32 . . . . . <u>a</u>	125.0	97.4	27.6	27.5	.3
Farm Mortgage Relief, Act 5/12/33 . . . . .	300.0	202.6	97.4	97.4	-
Relief Act of 1933, Act 5/12/33 . . . . .	500.0	500.0	-	-	-
Insurance companies, Acts 6/10/33 and 1/31/35 . .	75.0	30.1	44.9	4.0	40.9
Home Owners' Loan Act 6/13/33 . . . . .	200.0	200.0	-	-	-
Federal Deposit Insurance Corp., Act 6/16/34. . .	250.0	-	250.0	-	250.0
Public Works Adm., Act 6/19/34 . . . . .	250.0	124.6	125.4	64.8	40.6
Mortgage loans, Act 1/31/35	100.0	10.0	90.0	12.0	78.0
	<u>1,800.0</u>	<u>1,164.7</u>	<u>635.3</u>	<u>225.5</u>	<u>409.8</u>
<b>III. Unlimited:</b>					
Preferred stock, etc., of banks and trust companies, Act 3/9/33 . . . . . <u>b</u>	1,037.1	905.2	131.9	131.9	<u>b</u>
Agricultural Adjustment Act (Sec. 5) Act 3/12/33	-	-	-	-	-
National Housing Act (Sec. 4) Act 6/27/34 . . . . .	39.0	39.0	-	-	-
	<u>1,076.1</u>	<u>944.2</u>	<u>131.9</u>	<u>131.9</u>	<u>-</u>
<b>Grand total . . . . .</b>	<u>6,625.1</u>	<u>4,412.5</u>	<u>2,213.6</u>	<u>1,885.4</u>	<u>928.2</u>

a Only \$124.7 usedb Unlimited (included to complete total)Accounts & Deposits  
February 7, 1936.

Advances by the Reconstruction Finance Corporation  
to Banks and Trust Companies

As of December 31, 1935 the Reconstruction Finance Corporation had total outstanding balances invested in banks and trust companies amounting to \$1,281 millions. These investments fall into the two sharply separated categories of (1) loans to banks in distress, now mostly closed, and to receivers of closed banks, and (2) loans on and purchases of preferred stock and capital debentures of banks and trust companies, and these two classes of advances must be treated entirely separately. The balances outstanding in the first category amounted to \$382 millions and in the second category to \$899 millions.

The net outstanding balances of the RFC on account of loans to banks and trust companies, including receivers, amounted to \$632 millions as of December 31, 1934, and were reduced by \$250 millions, or about 40 percent during the calendar year 1935. The gross amount of liquidation achieved on this account during the year 1935 amounted to \$368 millions, but \$118 millions of new loans were disbursed during the year. Of the total amount of net liquidation effected during the year \$95 millions occurred during the first quarter, \$58 millions during the second, \$44 millions during the third, and \$53 millions during the fourth. The new loans for this purpose were made \$31 millions during the first quarter, \$35 millions during the second, \$28 millions during the third, and \$24 millions during the fourth.

There is every reason to suppose that the liquidation achieved to date in these loans will continue, although with diminishing rapidity, as the core of frozen and semi-frozen loans is approached. There seems to be no occasion for any change in the present policies of the RFC in dealing with these loans, and a continued pursuit of such policies may reasonably be expected to result in a net liquidation of \$75 to \$100 millions during the six months ending June 30, 1936, and of \$100 to \$125 millions during the fiscal year 1937.

The \$899 millions of outstanding balances for loans on and purchases of preferred stock and capital debentures of banks and trust companies presents a fundamentally different problem. These commitments were made to going institutions and may not be expected to be liquidated nearly as rapidly as the first category of advances. While the institutions which have been assisted by the purchase of preferred stock and debentures or by loans on them are, of course, on the average very much stronger than those to which loans of the first category have been made, the security is far inferior, and it is likely that losses in this

category will be very substantially greater than in the other. This is only to be expected, and is probably a very cheap price to pay for the general rehabilitation in the banking structure which has been accomplished by such operations.

Total disbursements for the purchase of preferred stock, etc., of banks to December 31, 1935, amounted to \$1,041 millions, and repayments to \$142 millions, resulting in the net balance of \$899 millions previously referred to. The repayments of \$142 millions, however, included a large volume of repayments by certain banks, principally in New York City, which sold preferred stock or debentures to the RFC in the first place at the request of the Government in order to remove the odium of such sales from other banks. These banks repaid their preferred stock or debentures at the earliest opportunity, and all balances now outstanding are so at the election of the bank or trust company.

During November the Comptroller of the Currency made a study of all national banks having preferred stock outstanding and concluded that \$104 millions of such preferred stock could be safely retired. At the same time the Federal Reserve Board estimated that \$3.5 millions of preferred stock issued by State member banks might be safely retired. No estimate is available for State nonmember banks, but in view of the general tendency of such banks to be in a weaker condition than either national banks or State member banks, it is clear that \$110 millions would be the top estimate of outstanding preferred stock, which, in the judgment of the proper supervising authorities might be safely retired at the present time. Fifty million dollars each of this total of \$110 millions is preferred stock of the Chase National Bank and of the National City Bank, both in New York City, and thus the only substantial possibility of early retirement would come from these two banks.

As of the last national bank examination on November 8, 1935, the Chase National Bank had a net sound capital of \$267 millions, including its preferred stock, or \$217 millions without it, while the National City Bank at its examination on October 25, 1935 had \$184 millions of sound capital including its preferred stock and \$134 millions without it. Deposits of Chase National Bank at the year end were \$2,075 millions, and of National City Bank, \$1,317 millions. Chase National Bank thus would have had at the year end only \$1 of stockholders' capital for every \$9.80 of deposits had its preferred stock been retired, while the corresponding figure for National City Bank would have been \$1 of stockholders' capital to \$12.30 of deposits. Both of these figures are at the margin of conservative banking, and consequently neither management desires to retire its preferred at the present time.

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The Government's investment in these banks is well protected and currently yields a  $3\frac{1}{2}$  percent return, so it would seem very foolish to force a liquidation at this time, particularly as such a forced liquidation would constitute a complete about-face in the whole bank rehabilitation program. If liquidation is not pressed, both of these banks in the next several years will probably sell additional common capital stock and so provide for the repayment of the Government's interest without any impairment in the strength of the banks.

In general, the Government's preferred stock commitments in banks and trust companies can only be retired without impairment to the banking structure from earnings, by sale of additional common stock to private shareholders, and by the offering of the preferred stock direct to the public. The first manner of retirement is now in progress but will naturally be very slow, while the third method is of very questionable wisdom. If conditions continue good, a substantial repayment of preferred stock ought to occur in the next several years by the second method, but little of a specific character can be done to hasten it.

The bank rehabilitation program is now practically complete, and new purchases of preferred stock and debentures from December 31, 1935 had not ought to amount to more than \$25 - \$50 millions in all. Assuming moderately favorable conditions and no pressure on the banks to hasten retirements, repayments of this type of balances may be expected to aggregate \$100 - \$250 millions during the next eighteen months, resulting in a liquidation in this type of commitment of anywhere from \$50 millions to \$200 millions by the end of the fiscal year 1937 with the possibility of a greater liquidation should a real market for bank stocks develop during this period.

#### SUMMARY

1. No recommendations are made for changes in present policies.
2. It is estimated that the net liquidation in loans to banks in distress and to receivers of closed banks during the next eighteen months will amount to \$175 - \$225 millions and of loans on and purchases of preferred stock and capital debentures to \$50 - \$200 millions.

## Federal Housing Administration

### I. Use of Appraisal Fees to Offset Expenditures

At the present time, appraisal fees charged by Federal Housing Administration are transferred into the mutual mortgage insurance fund along with insurance premiums. Although the Comptroller General has ruled that such fees must be deposited in the fund, the Administrator has the power to cover such expenses as is desired by use of assets in the fund. It has been decided as an administrative policy that the direct cost of insuring loans should be borne by the mortgagor and covered by an appraisal fee, but this policy has not yet been placed into effect. It is recommended that the appraisal fees already deposited in the fund and all such fees collected in the future be used to offset administrative expenses. It is estimated that such fees will amount to more than \$1,356,000 in the fiscal year 1956, and \$2,500,000 in the fiscal year 1957. If this policy is adopted, the deficits in these fiscal years will be correspondingly reduced.

The administration has estimated that within five years collections of appraisal fees will adequately cover all of the direct costs of insuring mortgages. Appropriations will be necessary to cover expenses of the Washington office and the supervisory expenses in all of the State offices.

### II. Appropriation of Reconstruction Finance Corporation Funds

The Reconstruction Finance Corporation is required to make available to the Federal Housing Administrator such funds as he may deem necessary for the purposes of carrying out the provisions of the National Housing Act. The authority of the Reconstruction Finance Corporation to issue its bonds, notes and debentures has been increased by such amounts as may be required to provide funds for such purposes. It would seem desirable to limit this appropriation to some specific amount and to a specific period, and require an annual appropriation in the future.

The National Housing Act provided for the insurance up to 20 percent of modernization credits to a total of \$1 billion. Thus, the liability of the Government could not exceed \$200 millions. The provision for insuring modernization loans expires April 1, 1956, by which time it is estimated that the maximum amount of loans so insured will not exceed \$350 millions. Thus, the maximum liability of the Government would be \$70 millions. Unless new legislation is enacted, therefore, approximately \$130 millions of the original \$200 millions maximum will not be needed, and it would appear desirable to reduce the appropriation for modernization loans by that amount.

It should be mentioned that there is under consideration at present a proposal to use \$50 millions of this amount to set up a revolving fund to provide insurance for loans on buildings under construction. If it were considered desirable to set up such a fund for this purpose, it would be more advisable to provide a new appropriation for it than to utilize any of the balance remaining from the original \$200 millions appropriation.

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THE WHITE HOUSE  
WASHINGTON

February 8, 1936.

Respectfully referred to the Acting  
Director, Bureau of the Budget, for recom-  
mendation.

M. H. McINTYRE  
Assistant Secretary to the  
President

RECEIVED

FEB 8 1936

BUREAU OF THE BUDGET

3-14

**RECONSTRUCTION FINANCE CORPORATION**  
**WASHINGTON**

February 7, 1936.

Dear Mr. President:

Funds available to other governmental agencies from the RFC include \$97,400,000 to the Land Bank Commissioner for loans to Joint Stock Land Banks of which \$65,000,000 probably will not be required. Should any of these banks need to borrow the RFC could make loans to them.

We are authorized to purchase obligations of the Federal Deposit Insurance Corporation, our holdings not to exceed \$250,000,000 at any time. That corporation is also authorized to borrow elsewhere and it is doubtful if we will ever be called upon for any part of this sum; however, I do not suggest cancelling the item, but merely call it to your attention.

There is a revolving fund of \$10,000,000 available for increases in capital of Regional Agricultural Credit Corporations subject to call by the Farm Credit Administration. I see no reason why this item could not be cancelled.

We were authorized by the Emergency Farm Mortgage Act approved May 12, 1933 to advance \$5,000,000 to the reclamation fund upon request of the Secretary of the Interior for completion of projects authorized or under construction at the time this Act was approved.

We are directed to give whatever sums to the Federal Housing Administrator he may require to carry out the provisions of the National Housing Act. Under Title I and II of this Act we might be called upon for as much as \$210,000,000 while no limitation exists as to Title III. Some restriction probably should be placed upon the amount required of the Corporation.

We still have \$27,404,300 of the amount we are required to make available to the Secretary of the Treasury to enable him to pay for capital of Federal Home Loan Banks. This is being taken in relatively small amounts but Mr. Fahey thinks it will all be needed probably during the calendar year.

We still have available \$100,000,000 for relief, but you will probably want to leave that undisturbed. or use it,

Sincerely,

*James H. Jones*  
Chairman

The President  
The White House



TREASURY DEPARTMENT

171

INTER OFFICE COMMUNICATION

DATE February 8, 1936.

TO Mr. Upham

FROM Mr. Coolidge

After our talk in regard to lending agencies I tried to clarify my mind by thinking of policies involved. It seems to me there are five points on which we should give thought to policy:

- (a) Cutting off unneeded authorization of loans authorized by Congress;
- (b) Reduction in lending policy now contemplated by the agencies;
- (c) Possible reductions in administrative expenses;
- (d) Reorganization of the existing setup of the corporations, or bookkeeping transfers in the method of showing expenses;
- (e) The question of liquidation of assets now held by the Government.

In the case of (a) there is no question but that heavy cuts can be made in authorizations and especially in the case of the HOLC.

In regard to (b) the chief example I would recommend would be a marked reduction in the money available for Federal Savings and Loans which HOLC is now contemplating spending.

In regard to (c) this is a problem for the Budget Bureau and I understand is being handled.

In regard to (d) you get into great complications. There is nothing immediate to be gained and I would suggest careful study looking toward not merely a change in the existing corporations but consolidations, etc.

In regard to (e) the two main factors would probably be the sale

of preferred stock and the sale of HOLC mortgages, with possibly the question of liquidation of commodity loans. I would rather regret hasty liquidation of capital assets and have this money thrown into the Budget picture. I feel that the Budget should stand on its feet without drawing on capital assets now owned by the Government; that these capital assets should be liquidated, but liquidated with care and the liquidation be used as an additional sinking fund of the public debt rather than thrown into the current expense account.

*TJ*

**RECONSTRUCTION FINANCE CORPORATION**  
**WASHINGTON**

JESSE H. JONES  
CHAIRMAN OF THE BOARD

February 7, 1936.

Dear Mr. President:

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We still have available \$100,000,000 for relief, but you will probably want to leave that undisturbed, or use it.

Sincerely,

(Signed) Jesse H. Jones

Chairman

The President  
The White House

February 10, 1936

The Secretary spoke to the President about K. P. Chen and the President said O.K. The President also told HM, Jr. that he does not have to take up with the State Department the matter of Chen's coming here to discuss China's monetary problems.

NAVY DEPARTMENT  
OFFICE OF NAVAL INTELLIGENCE  
WASHINGTON

In reply refer to No.

CONFIDENTIAL

10 February, 1936.

My dear Mr. Secretary:

The following is a paraphrase of a message received in answer to my request about K. P. Chen:-

"The gentleman has an excellent reputation in foreign Chinese circles. Very recently has been elected Chairman of Chinese-American Trade Council. Has no desire for publicity. In fact, avoids it. He has no fixed political affiliations. He has drawn closer to Chiang Kai Shek recently and is more friendly with him than in the past. His intimate friends are from the prominent local bankers. His closest friend is T. W. Soong, brother of T. V. Soong."

I hope this will answer your requirements. If not, please let me know.

With best wishes, I am

Faithfully yours,

*W. D. Puleston*  
W. D. Puleston,

Captain, U. S. Navy,  
Director of Naval Intelligence.

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

*Mr P - Pres n Chen -  
1 P ok - entry to  
C - L C P ho.*

CONFIDENTIAL

10 February, 1936

From: Spagent, Shanghai, China.  
To: Secretary of the Treasury.

Message from Nicholson. K. P. Chen, self-made man of humble origin and of modest retiring disposition. Graduate of Saint John's University, Shanghai, received degree University of Pennsylvania in 1909. General manager Shanghai Commercial and Savings Bank since 1915. He is practical banker of long experience, has probably contributed more towards modernizing and westernizing Chinese banking methods than any other local banker and probably understands banking in its relationship to economic problems of China better than any other. Stands at or near the top among bankers in China and is considered the most honest, sincere and dependable of the prominent local bankers. Unlike most of the others in his line of business he has generally sought to avoid political affiliations, yet his importance in banking circles has necessarily given him political contacts. He has a sound knowledge of Chinese politics but has remained essentially independent of all political groups and is not politically ambitious. In my opinion, from the viewpoint of the Treasury Department, he should be as desirable a selection as could be made. While not generally reputed to be anti-Japanese, I am satisfied he is so in fact and that he is pro-American. Age 56.

C O P Y

February 10, 1936

From: Spagent, Shanghai, China.  
To: The Secretary of the Treasury.

Message from Professor Buck. K. P. Chen feels necessity of settling differences with Japan and recognizing her as a neighbor. He is neither pro - nor anti-Japanese. He is practical, has had experience in commercial banking, and was foremost among bankers in recognizing necessity for present new monetary policy. Although technically not strong in monetary fields, he is probably most feasible person.

COPY

February 10, 1936

Mrs. Friedman:

From: Mr. Lochhead, Technical Assistant.

Please transmit the following message to Treasury  
Attache Nicholson, Shanghai, China:

"Prepare to leave Shanghai for Washington at about  
the same time departure K. P. Chen. This is pre-  
liminary notification and official instructions will  
be dispatched to you in due course. Morgenthau".

C O P Y

February 11, 1936

Memorandum to Mrs. Friedman:

Please transmit the following message to Professor

Buck:

"For confidential information Kung or Soong.  
K. P. Chen will be acceptable as Chinese representative on proposed visit to United States Treasury Department. Treasury received application of Bank of China for ten million dollars gold from Federal Reserve Bank yesterday and necessary license was granted immediately. Morgenthau".

Archie Lochhead,  
Technical Assistant.

AL:ek

February 11, 1936

HM, Jr. told Lochhead today to inform Ambassador Sze and also to cable Buck, so he in turn could inform Kung, that K. P. Chen would be acceptable to us.

and in the past... The President... I believe... in 1934 we had a... deficit of... in 1935 we had a deficit of... if it had not been for the... deficit of... for three years we had... and increased the deficit for 1937 to... in your... I would not say... the government... then... a real... I am sure... friends... were capable of...

By that time I wanted to go... and hide... in my... right, Mr. President.

There has been... I talked... and...

February 10th

The President said, "I want to tell you about a conversation that I had with Marvin Jones this morning". He said, "Marvin came in and talked to me about taxes and said, 'don't let's raise more than 200 million dollars in taxes and let the rest go by increasing your deficit'. The President sat back and then made a speech to me as though he was telling me something entirely new and he said it with confidence and assurance as though it was a matter that he always believed in. He said to Marvin Jones, "in 1934 we had a deficit of around 5 billion dollars; in 1935 we had a deficit of 3½ billion; in 1936 we had a deficit of 3 billion one and, if it had not been for the bonus, in 1937 we would have had a deficit of under 3 billion dollars. In other words, each year for three years we have had a decreasing deficit. If suddenly you increased the deficit for 1937 by 750 million dollars how do you expect me to sell any government bonds". He said, "if I was a bond buyer I would not buy any government bonds unless the government met its deficit through taxes". The President then sat back and smiled at me expansively and said, "I made a real impression on Marvin Jones and Marvin Jones said", 'I never thought of it in that way, Mr. President' and the President said, "I am sure that Marvin will go back on the Hill and tell his friends about his conversation with me and I do not look to much more trouble of that kind from that source".

By that time I wanted to go over in the corner and hide my face and grin but instead of that I sat back as though it was an entirely new idea to me and I said, "you are perfectly right, Mr. President".

What has happened in the last eight days since I talked to him is almost unbelievable and if he will only keep on talking and thinking along the same lines my troubles are over.

February 10, 1936

HM, Jr. saw Eugene Black, Jr., today. Black agreed to accept the post of Under-secretary of the Treasury, but asked Mr. Morgenthau to call Mr. Aldrich, of the Chase National Bank, to get his permission. Aldrich is away and so HM, Jr. spoke to H. D. Campbell, President of the Chase. The following is a transcript of their conversation:

HM, Jr: And he very gladly consented to do it and he walked in here some time last week with Eugene Black, Jr.

H. D.  
Campbell: Yes

HM, Jr: Now, I've had several talks with him and I took him over and introduced him to the President and the President liked him very much. And what I'm doing is to call you up to find out whether you'd be willing to let him have a year's leave of absence to come down here and take on this job.

C: Yes

HM, Jr: Now, I've looked around - there are lots of people that I can get that I don't want and - but Mr. Black seems to have most of the requirements that go to fill this particular job and also has the very necessary requirement that he can get confirmed by the Senate.

C: I see. (Laughter)

HM, Jr: Which is -

C: Well, of course, we'll be very happy to do that. In fact we'll do anything we can to help your office.

HM, Jr: Yes

C: I think Black will make you an excellent man.

HM, Jr: Fine

C: He - he holds a fine position here and we regard him highly -

HM, Jr: Yes

C: And I think he'll do the job in beautiful shape -

HM,Jr: Yes

C: There's just one little thing that you musn't do and that is you mustn't work him too hard.

HM,Jr: Well -

C: He's a rather tall delicate fellow and - and if he has to work twenty hours a day too long -

HM,Jr: Yes

C: It may sort of get him, do you see?

HM,Jr: Well, I tell you, I understood that. He's been very frank with me. But I told him this, and I've found this to be true, while the pace we set down here is terrific men who come here from private business - it doesn't seem to get them as much as it does when they're working with their own money, so to speak.

C: Well, I think that may be true. Of course, Gene's under a pretty strong strain with us.

HM,Jr: I know.

C: And it - that may be quite true, that - that he won't feel it any more.

HM,Jr: I don't -

C: We'll be very happy to do that for him. As I say, I'm sure you're getting a good man.

HM,Jr: Well -

C: We'll hate to lose him here, but just the same it's in a good cause. (laughter)

HM,Jr: Well, that's awfully nice, and he didn't want to do anything unless you felt perfectly happy about it.

C: Well, we do, absolutely. In the first place, it's a great honor for Gene, I think he can fill the job -

HM,Jr: Yes

C: - we'd love to see him have it. As I say, the -  
the trouble we're put to here is very second  
rate consideration.

HM,Jr: Yes

C: But - the only point that I have at all is I  
say take good care of him as far as his health  
goes.

HM,Jr: Well, I'll do that and - what I'm going to do is -  
I'm - I'm not going to - I'm going to keep all  
the paper work away from him -

C: Yes

HM,Jr: and let him concentrate on the Government Bond  
Market.

C: Well, I think that would probably be a wise thing  
to do.

HM,Jr: And - we could handle the paper work -  
it's usually bogged down the Under Secretary in  
another way. As a matter of fact I've done most  
of it myself.

C: Yes

HM,Jr: And - so he could just think about one thing -  
and that's Government Bonds.

C: Fine - well, we'll be very happy to do that.

HM,Jr: Well, I appreciate that. And he - he wouldn't say  
"yes" until he had seen you -

C: Well -

HM,Jr: And he's coming in tomorrow morning, I think, to  
see you.

C: I see, well, I'll be glad to see him. As I say,  
Mr. Secretary, there isn't one thing in this picture  
except his own physical side.

HM,Jr: Well, I'll do the -

C: And due to the fact that he is tall and fairly  
delicate why of course he hasn't got the stamina

of - Jesse Jones.

HM, Jr: No (laughter) no.

C: (Laughter) all right.

HM, Jr: Now, if you come down to Washington, give me a ring beforehand and I'd like very much to sit down and have a chat with you.

C: Thank you, so much. I'd love to do that.

HM, Jr: Thank you, goodbye.

HM, Jr. also called up Senator Russell of Georgia and told him that he was taking Eugene Black, Jr., on as Undersecretary and asked whether he would not be good enough to take him around on the Hill on Friday, when Black will come down again, and introduce him to Senators Fletcher, McAdoo, Couzens and others. Senator Russell suggested that Mr. Black should see Senator George, who is the senior Senator from Georgia. HM, Jr. then called up Senator George and made a similar request of him.



Monday  
February 10, 1936

HM, Jr: Hello  
 Stewart  
 McDonald: Good morning, Mr. Secretary -

HM, Jr: Is this Stewart McDonald?

McD: Yes

HM, Jr: How are you?

McD: Fine

HM, Jr: Did that loan go through for the housing project that Judge Manton was interested in?

McD: Not yet -

HM, Jr: It did go through?

McD: No, no, not yet -

HM, Jr: It has not?

McD: No, we're still studying it.

HM, Jr: Well, now - it has not yet gone through?

McD: No, it has not.

HM, Jr: Well, do you happen to know who they've appointed as a renting agent?

McD: Brown, Wheeler and - somebody - what's that firm?

HM, Jr: Brown, Wheelock?

McD: Yes, that's my understanding.

HM, Jr: I see, Brown, Wheelock?

McD: Yes

HM, Jr: Yes

McD: They're coming down here - the bankers are coming down here this week.

HM, Jr: I see.

McD: Here to Illinois -

HM,Jr: Yes

McD: We've had - given it an awful lot of study - it's a - it's a great big problem - we don't want to make a mistake on it.

HM,Jr: Well, is it the usual thing that they take on the renting agents before a building is even built?

McD: Well, I don't know whether it is or not - we inquired who is going to have the management of the property and they said that Brown, Wheelock were going to have the management.

HM,Jr: I see.

McD: - Whether - whether we have any right to specify that or not I don't know.

HM,Jr: Yes

McD: We certainly would have the right to - to say that certain other people would not be satisfactory.

HM,Jr: Yes, now can I say something that's absolutely between the two of us that nobody else -

McD: Absolutely - absolutely

HM,Jr: Well the reason I am calling is I was told, and that's what worried me, that they had appointed William A. White and Son.

McD: Oh, no, no -

HM,Jr: What?

McD: No, no -

HM,Jr: And if that was the case I wanted to - I couldn't

McD: Oh, no - I wouldn't have them anyway on account of connections that you know about -

HM,Jr: Right

McD: And, furthermore, we've asked for some appraisal work to be done and we've refused to take that firm on that same account.

HM,Jr: I see. Well, that's the reason I called, but I was told positively that William A. White and Son had been promised the business.

McD: No - don't - we're more astute than that.

HM,Jr: Well, now, that's strictly between the two of us -

McD: Sure, sure

HM,Jr:

McD: You bet

HM,Jr: O. K.

McD: All right, much obliged, thank you.

February 11, 1936

At the 9:30 staff meeting this morning, McReynolds reported that the Secret Service bill has been redrafted in order to meet the objections which the Narcotic groups put up. He said that the name has been changed to "Treasury Agency Service," instead of "Secret Service Agency." HM, Jr. did not like the new name at all and insists upon the name, "The United States Secret Service Agency." Then, he said, the various bureaus could be listed under the United States Secret Service Agency, such as Narcotic Bureau, Alcohol Tax Unit, etc. Mr. Oliphant stated that the State Department will go up on the Hill and block us because they object to the name, United States Secret Service Agency, whereupon HM, Jr. told Mr. Oliphant to draft a letter to Secretary Hull telling him very plainly "to keep out of the Treasury business."

HM, Jr. told the group that Bell made the suggestion, this morning, that when we have worked out a method of paying the bonus that we ought to call in General Hines, the chairmen of the Committees and a few others and outline our tentative plan. It would then give them a chance to raise their objections and not block us later on when the thing comes up on the Hill.

Mr. Grimm reported that the President is now ready to talk to him on the National housing policy and that he, Grimm, had asked the White House to invite Bob Wagner to this meeting. HM, Jr. told Grimm that he wanted to be present at the conference.

February 11, 1938

At Senator McNary's dinner last night I met Senator Bailey. He pushed me in a corner and said, "Why didn't you say that the bonus would be terrible and, in that way, give me an excuse not to vote for it?" I laughed and said, "I did all I could, Senator, and also wanted to keep faith with my soul."

February 11, 1936

I have come to the conclusion that the way to pay the bonus is to begin to sell \$50,000,000 of Bills each week to come due on the 15th of December.

The reason for this is two-fold. One, that we really do not know how much money we will need to cash the soldiers' bonds and therefore we might pile up too much money; second, by borrowing \$50,000,000 a week, it means that we will have to sell less notes and bonds at this time, and when the 15th of December comes around we will know to the last dollar how many bonds the soldiers cashed and can then get out and issue for the exact amount.

Looking at it from every standpoint, I think it is a grand idea. It happens to be mine.

129A

Tuesday  
February 11, 1936

W. R.  
Burgess: Yes, sir

HM, Jr: I've got what I think is a swell idea.

B: That's fine.

HM, Jr: I admit it.

B: Good

HM, Jr: I want you to think about it and I'd like you to talk to George about it.

B: Yes

HM, Jr: I - walking down with Bell - we have no idea whatsoever how many - how much money they're going to need to pay the Bonus.

B: Yes

HM, Jr: Now, I got this thought, that we begin to sell fifty million dollars worth of bills each week due December fifteenth and when we do it that we announce that we're going to do it and continue to sell through the summer until we've raised enough money in this way to pay for the bonds, or the Bonus bonds that will be presented. Then on the fifteenth of December we will know exactly how much we would need and at that time we'll cash these - I mean we'll convert them into a bond for the exact amount for the Bonus, see?

B: Yes, yes

HM, Jr: Do I make myself plain?

B: Yes, I think so.

HM, Jr: I mean - the figures that we get are all over the lot, see?

B: Yes, I see.

HM, Jr: As a matter of fact the applications are coming in very slow into the Veterans' Bureau.

B: Yes

HM, Jr: Now, some say we need a billion, some say we need a billion and a half. - I don't know, I don't say we'd

1298

raise it all through bills, but we could raise it - have them all come due on the fifteenth of December and then get out an issue which would be known as a Bonus issue.

B: Yes

HM,Jr: See?

B: Yes

HM,Jr: I don't expect you to say anything, but I would like you to think it over. I'm quite enthusiastic about it.

B: That is - there's an advantage in your point of view in having a - an issue that you can - that you can earmark.

HM,Jr: It would be a great advantage.

B: I see, yes

HM,Jr: A great advantage, and then, instead of trying for instance, to go out on March fifteenth and June fifteenth -

B: Yes

HM,Jr: - and pile up a big cash balance, which we may never need -

B: Yes

HM,Jr: And it cuts down our borrowings for notes and bonds - I won't have to borrow nearly as much -

B: Yes - yes - yes

HM,Jr: And then on the fifteenth, whatever it is we'll get out an issue at that time.

B: Yes - yes - yes

HM,Jr: Now, for instance, when I first spoke to Bell this morning he said, 'Well, we need seven hundred and fifty million cash on the fifteenth'. Well, if we did it this way I don't think we'd need over five hundred.

B: Yes, yes

HM,Jr: You see?

B: Yes

HM,Jr: And it would cut down what we have to sell in notes and bonds considerably.

B: Yes

HM,Jr: And it's a much more accurate way to do it. And by the fifteenth - by the first of December we'll know to the last dot how many bonds have been cashed.

B: Yes, yes - yes. Well, let me turn that over. I think it has merit.

HM,Jr: Don't you think it has merit?

B: I think so, yes

HM,Jr: And what - and then when I do it I'd announce the reason for it.

B: Yes, yes

HM,Jr: You see?

B: Yes

HM,Jr: I'd say this is my reason - nobody can tell how much money we'll need, but on the fifteenth of December we'll know.

B: Yes, yes - yes I hadn't realized that it was important to earmark that money especially.

HM,Jr: Well, I want to earmark it for this reason - my thought is to get out an issue which will come due every year for nine years. I want to sell a one year, two, three, four, five, six, seven, eight, nine year piece of paper, see?

B: A serial bond?

HM,Jr: Well, it won't be a serial bond. It'll be in separate issues.

B: Yes

HM,Jr: And then mark them as the Bonus issue. In each year there'll be a couple hundred million dollars of these coming due.

B: Yes, yes

HM,Jr: And each year the people will have to know that that is what it costs to have to pay for the Bonus.

B: Yes

HM,Jr: And I think it will have a wonderful psychological effect.

B: Yes, yes

HM,Jr: See?

B: Yes, yes

HM,Jr: I mean - so much money each year will come due and we will have to raise taxes to pay for it and that is what the Bonus cost us and they won't forget it.

B: Yes

HM,Jr: If it - if it's sort of melded in with the general things they'll lose track of it.

B: Yes, I see

HM,Jr: You see what I mean?

B: I see the point, yes

HM,Jr: I mean, this is all my own stuff and (Laughter)

B: Yes (Laughter)

HM,Jr: And I don't want to get too enthusiastic about my own idea -

B: (Laughter)

HM,Jr: But I'm shooting it to you to think about and talk about.

B: All right, that's fine -

HM,Jr: But you can see, if this thing just becomes a general part of general issues people will forget about it in three months.

B: That's right, yes, yes. There's a point in that.

HM,Jr: What? - There's a big point in it, - Burgess.

B: Oh, yes, there's no doubt about that.

HM,Jr: And it relieves me, with all this talk and all the political stuff which is in the air, of raising about a billion dollars less cash.

B: Yes

HM,Jr: I mean, through notes and bonds.

B: That's true, yes

HM,Jr: You see?

B: That's true.

HM,Jr: And nobody can tell me within five hundred million dollars how much we'll need.

B: Yes, yes - yes, yes

HM,Jr: You think about it.

B: All right, sir, fine, and I'll turn it over -

HM,Jr: Right

B: And let you know.

HM,Jr: Fine

B: Goodbye

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On Monday, the Secretary asked the President to make an announcement to the effect that the Budget is making a study of how to cut down on expenditures. HM, Jr. wanted this to be a follow-up of his statement of last week on the same subject. The President turned the Secretary down and said he did not want to make another announcement.

However, this morning HM, Jr. called Steve Early and asked him to urge the President to make such a statement and the following is the announcement that came over the ticker after the President's press conference today:

WCNS110

PRESIDENT ROOSEVELT REVEALED TODAY THAT GOVERNMENT AGENCIES ARE ATTACKING THE PROBLEM OF FEDERAL EXPENDITURES FROM THREE ANGLES.

MR. ROOSEVELT OUTLINED THE DIRECTION OF HIS CONFERENCES WITH HEADS OF GOVERNMENT LENDING AND SPENDING AGENCIES AS FOLLOWS:

1. EXAMINATION OF VARIOUS AUTHORIZATIONS OF APPROPRIATIONS WHICH WILL NOT BE USED AND CAN BE CANCELLED.
2. EXAMINATION OF VARIOUS APPROPRIATIONS OR AUTHORIZATIONS WHICH WOULD EFFECT A SAVING OR A REDUCTION IN THE PUBLIC DEBT.
3. APPROPRIATIONS WHICH WOULD HAVE AN EFFECT ON THE ACTUAL BUDGET OR THE DEFICIT.

MR. ROOSEVELT SAID THE STUDY WAS BEING CARRIED OUT SIMULTANEOUSLY WITH THE BUDGET DIRECTOR IN ALL THREE DIRECTIONS DAILY REPORTS ARE BEING RECEIVED.

HE SAID THAT WHILE NO DEFINITE DEADLINE HAD BEEN SET FOR THE REPORTS HE FELT THAT INSIDE OF A WEEK HE WOULD HAVE PRETTY GOOD INFORMATION.

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At the 9:30 meeting this morning, at which were present McReynolds, Haas, Bell, Upham, Oliphant and Gaston, HM, Jr. asked Mr. Bell to prepare a correct official picture showing just how the Budget has been affected since the President sent it up on the Hill. Included in this report he wants shown how much new money it will be necessary to raise by taxes. He wants this report ready so he can take it to the White House tomorrow morning at 9 o'clock.

In connection with the passage of the Deficiency Appropriation Bill, which carried an item of \$298,000,000 for benefit payments to farmers who complied with the 1935 acreage control contracts and some who gave partial performance under the 1936 early plantings, HM, Jr. asked Bell to let him know when these payments are made and how fast the money goes out.

HM, Jr. told the group as follows: "As Secretary of the Treasury I have a mandate from Congress to have the bonus bonds in the hands of the veterans by June 15 and even if it has a bad effect on the bond market, I will carry out their wishes without any "phenagling". I am making this statement to you men, because I want a clean-cut understanding on this."

He also called Col. McIntyre and told him that several of the papers carried the story on taxes to finance the agricultural program for 1936. "Pat Harrison," he said, "is very sore. We know that these stories have been coming out of the Department of Agriculture and unless Wallace or his people stop talking, we are going to get into a jam on the Hill just as we did last year." He also told McIntyre that "there is absolutely no reason why Agriculture should be feeding tax stories to the press."

HM, Jr. also made the suggestion to McIntyre that Secretaries Roper and Ickes be invited to the meeting when the President discusses the National Housing Program with Grimm. McIntyre felt that no one but Grimm ought to be present at the meeting. HM, Jr. then told McIntyre that, confidentially, Grimm is leaving on March 1 and in view of that fact he felt that he, HM, Jr., ought to attend.

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George Harrison came in and said he was giving a dinner for Coolidge next week and was inviting all the ex-Assistant Secretaries of the Treasury since 1914. He said, "I am having Lew Douglas, Sprague and others," and asked the Secretary if he would come. The Secretary replied that he would not "break bread" with Lew Douglas. Harrison then said that he would be delighted to cancel the invitation to Lew Douglas, but HM, Jr. said, "Don't bother; I really do not care to come."

Secretary and said that Harrison was...  
views, as expressed in his statement of April 10, 1935, and  
to the fact that Harrison had stated in his statement that the  
Department was in the view of the fact that it had received  
the letter of Harrison. Mr. J. P. was advised by Harrison, as he  
told Harrison, that Harrison had said that Harrison had  
to be careful.

The Secretary told Harrison that it is very important to  
have the State Department and the Treasury take...  
on a bill of up the bill and suggest to Mr. Harrison that he  
read the bill and suggest his own...  
Secretary replied that since it is very...  
disagreeing, but since the...  
would suggest that you...  
the meeting which is scheduled...  
will give an opportunity to...  
You are calling for it...

Mr. J. P. of the State Department will be at...  
in doing with representatives of the...  
will be... of the...  
policy... other...  
of the Committee, Mr. J. P. will...

February 13, 1936

Pursuant to HM, Jr's instructions of February 11, Mr. Oliphant prepared a letter to Secretary Hull on the State Department's activities in lobbying against the Treasury's bill consolidating its police activities. The Secretary thought the tone of the letter was a little too severe and decided not to send it, but instead called Secretary Hull on the 'phone. Not being able to reach Mr. Hull, he talked to Mr. Phillips.

Mr. Phillips explained to the Secretary that the State Department's objection to the bill concerned only the Bureau of Narcotics and said this objection was based on the President's wishes, as expressed in his statement of April 20, 1933, that he did not want that Bureau abolished or merged with any other Government activity "in view of the fact that we must respect our treaty obligations." HM, Jr. was shocked because, as he told Phillips, "I checked this bill with the President before we went ahead."

The Secretary told Phillips that it is very disturbing to have the State Department and the Treasury take opposite sides on a bill up on the Hill and suggested to Mr. Phillips that he send for Fuller and question him about his activities in opposing the bill. Phillips replied that since it is purely a misunderstanding, but since the misunderstanding exists, "I would suggest that you call Congressman Doughton and postpone the hearing which is scheduled to take place on Monday. This will give us an opportunity to get together at the meeting which you are calling for 11 o'clock that day."

Mr. Fuller of the State Department will be at this meeting on Monday with representatives of the Treasury. Also present will be members of the Opium Research Committee of the Foreign Policy Association, whose names were suggested by the secretary of the Committee, Mrs. Moorhead, who will also be present.



THE SECRETARY OF THE TREASURY  
WASHINGTON

(DRAFT: NOT SENT)

My dear Mr. Secretary:

It would, I believe, reduce some of your and my problems, and would certainly be helpful to the Administration, if we could develop a mechanism for avoiding conflicts between our Departments before Committees of Congress.

I have in mind two incidents of this sort, where the Treasury Department prepared and submitted to Congress legislation dealing with matters of primary concern to the Treasury, the Treasury thereafter being informed by members of Congressional Committees that the State Department was opposed to certain features of such legislation, such opposition having been expressed after the Treasury's views on such legislation had been fully presented to the appropriate members of the staff of the State Department. This happened in connection with the bill to establish Customs Enforcement Areas, and is now happening with reference to legislation to prevent the importation of American type whiskies from Canadian companies whose bootleg operations were in gross violation of our internal revenue and customs laws, although Assistant Secretary Moore last summer told us that he withdrew all objections to this legislation. I am now fearful it will happen in connection with Treasury legislation for reorganizing its Intelligence Service, even though the matter has been gone over very fully with your Mr. Fuller.

Would it be possible to arrange that objections to Treasury legislation originating in your Department be brought to your attention before they are presented to Members of Congress, in order that you and I may have an opportunity to discuss the matter and see if we cannot come to an agreement on it?

Very truly yours,

Secretary.

The Honorable,

The Secretary of State.

(COPY)

DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
FE

February 12, 1936

My dear Mr. Secretary:

Referring to our telephone conversation of today, I enclose herewith a copy of the memorandum to which I referred, dealing with the Treasury Secret Service Reorganization Bill (H.R.10586) and its relation to the organization of international cooperation to suppress the abuse of narcotic drugs.

Sincerely yours,

/s/ CORDELL HULL

Enclosure:  
Memorandum.

The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

## DEPARTMENT OF STATE

## DIVISION OF FAR EASTERN AFFAIRS

MEMORANDUM

February 12, 1936.

PROPOSED ABOLISHMENT OF THE BUREAU OF NARCOTICS AND THE  
TRANSFER OF ITS FUNCTIONS TO THE SECRET SERVICE DIVISION  
OF THE TREASURY DEPARTMENTTreaty Obligations as Affecting Any Proposed  
Reorganization of the American Narcotics  
Administration

Pursuant to a plan for the reorganization of the Secret Service, a bill was introduced in the House of Representatives on January 24, 1936, and hearings thereon are to be held in the near future before the House Committee on Ways and Means. The bill (H.R. 10586) expressly abolishes (1) the Bureau of Narcotics and several other agencies of the Treasury Department; (2) the offices of Commissioner and Deputy Commissioner of Narcotics and other offices in the Treasury Department and provides for the transfer of the functions of the abolished agencies to the Secret Service Division.

This Department's interest in the bill centers in the question whether the abolishment of the Bureau of Narcotics and the merger of its functions with those of other agencies could reasonably be considered as

disregarding

disregarding this Government's obligations under Article 15 of the Narcotics Limitation Convention of 1931 or would likely be regarded by other Governments as an indication of a decreasing interest on the part of the American Government in controlling the narcotic traffic and cooperating with other Governments to prevent narcotic drug addiction.

The text of the bill as introduced, together with the text of the amendment thereto, informally suggested by officers of the Treasury Department, has been made the subject of careful study to determine whether the bill would meet the letter and the spirit of the Narcotics Limitation Convention of 1931, and to ascertain the probable effect which the proposed change in the organization of administration and enforcement would have on the effectiveness of the system of international cooperation, built up over a long period of years, and essential, now as in the past, to success in the effort to suppress the abuse of narcotic drugs.

The treaty article mentioned reads as follows:

"The High Contracting Parties shall take all necessary legislative or other measures in order to give effect within their territories to the provisions of this convention.

"The

"The High Contracting Parties shall, if they have not already done so, create a special administration for the purpose of:

- (a) Applying the provisions of the present convention;
- (b) Regulating, supervising and controlling the trade in drugs;
- (c) Organizing the campaign against drug addiction, by taking all useful steps to prevent its development and to suppress the illicit traffic."

The treaty does not define the term "special administration" and it might be contended that any agency of this Government entrusted with the functions required by the treaty could be regarded as a "special administration" within the meaning of that term as used in the treaty.

While admitting that such an interpretation might not be untenable from a purely technical point of view, it is submitted that the more reasonable and preferable view is that the term "special administration" contemplates an agency specially and - as far as practicable - exclusively charged with the duties prescribed by the convention. If it be the purpose of the proposed reorganization of the Secret Service Division to maintain in that division a branch or unit exclusively engaged in the performance of the functions now performed by the Bureau of Narcotics, it might be conceded that such a plan would satisfy the requirement

requirement of the treaty provided the branch or unit mentioned were adequately and competently staffed and equipped to carry on the duties now performed by the Bureau of Narcotics. But the bill itself does not so indicate and the maintenance of such a special administration would rest merely on administrative action, subject to change at any time, and not upon statute as at present.

It would seem to be difficult to avoid apprehension that the abolishment of the Bureau of Narcotics as such and the transfer of its functions to the Secret Service Division would have the practical effect of destroying the distinctive character and status of the work of the Bureau of Narcotics, subordinating that work to the general activities of the Secret Service Division and thus inevitably tending to render less specialized, distinctive and effective the activities of this Government in administering the narcotics laws and in fulfilling its obligations under the narcotics treaties. If the proposed reorganization accomplished nothing more than the abolishment of the term "Bureau of Narcotics", as the name of this Government's agency in the administration of its narcotic laws and its campaign against illicit narcotic traffic, this, in itself, probably would be generally interpreted as an indication that the Government

of

of the United States was placing less emphasis on the importance of the narcotic problem. When it became generally known that the work of the Bureau of Narcotics was being transferred to a purely investigative agency, which is not in any strict sense an administrative agency and the principal functions of which are either wholly unrelated to narcotic activities or only incidentally so related, and that there was no longer an official of the United States charged exclusively with this Government's activities in handling the problem of narcotics, the conclusion to be drawn by foreign countries interested in this problem probably would be that the Government of the United States had materially changed its policy with respect to the narcotic traffic and was making manifest a lessened interest in combatting the narcotic evil or fulfilling its international obligations under the several narcotics treaties.

Such a conclusion would seem to be warranted by contrasting the abolishment of the agency of the American Government engaged exclusively with the narcotic problem, both local and international, with the position hitherto taken by this Government, which was largely responsible for the adoption of Article 15 of the Narcotics Limitation Convention

Convention requiring all the signatories to "create a special administration" for the better fulfillment of the treaty's purposes. The methods and procedure adopted by the United States for dealing with the narcotic problem were well known and definitely approved by the representatives of the governments participating in the conference which resulted in the adoption of the Narcotics Limitation Convention and the success of the Bureau of Narcotics of this Government was an important factor in obtaining the adoption of Article 15 of the Convention requiring the establishment of a "special administration".

In this connection, the following comment, quoted from the Treasury Department's letter of June 1, 1933, is regarded as pertinent to the question under consideration:

"The American Delegation to the Convention assembled at Geneva in 1931, for the purpose of considering a plan to limit world manufacture of narcotic drugs, urged and was largely instrumental in having included in the final draft of the Limitation Convention, the United States method of limiting the manufacture of narcotic drugs and controlling their distribution and an agreement of the High Contracting Parties to create, unless they had already done so, a special administration for the purpose of applying the provisions of the Convention and for regulating, supervising and controlling the trade in narcotic drug addiction. Undoubtedly this provision incorporated into Article 15 of the Convention, now effective as an international obligation

through

through ratification by powers including the United States, contemplated the establishment and maintenance of a separate organizational unit in each country to deal with the unique and complex narcotic drug control problem.

"It may be assumed that all civilized countries recognize the principle that, as to narcotic drugs for which there is a bona fide medical and scientific use, manufacturing and trade facilities must be allowed to afford sufficient quantities of the drugs for such use, forbidding, however, the use of these facilities for the production and transfer respectively of any surplus quantities which, being intended for ultimate use in gratifying and perpetuating the vice of narcotic drug addiction, are contraband. Such, the Department apprehends, is the general purpose of the Limitation Convention. To effectuate this purpose a general regulatory and policing agency is required. The operation of a separate administrative agency, such as that represented by the Federal Narcotic Bureau, equipped to deal with both permissive and prohibitive aspects of the problem, interwoven as they are with necessary medico and chemico-legal considerations, has demonstrated the wisdom of the establishment and the importance of maintaining this Bureau as a separate, specialized administrative unit."

It is felt that there can be no reasonable doubt that the bill under consideration, if enacted, would be regarded by other governments as a retrograde movement by the United States. This could hardly fail to have a discouraging effect on world efforts to control the narcotic drug traffic and to prevent the abuse of narcotic drugs.

It is believed that the proposed amendment of the bill, informally submitted by officers of the Treasury Department,

Department, declaring in effect that nothing contained in the bill should be construed to relieve the United States of its obligations under Article 15 of the Narcotics Limitation Convention would not materially help the situation. The mere incorporation of such a provision would indicate the existence of a doubt whether the proposed bill would have an effect in derogation of this Government's treaty obligations. As a practical matter it would seem to be difficult to give effect to the proposed amendment if the necessary consequence of the bill were to abolish the special administration called for by the treaty.

When a former proposal was made to merge the Bureau of Narcotics with another agency of this Government, that proposal was disapproved by the President in his memorandum to the Under Secretary of State, dated April 20, 1933, in which he stated that:

"There is no intention of abolishing or merging the Bureau of Narcotics especially in view of the fact that we must respect our treaty obligations. F.D.R."

The proposed bill, insofar as it affects the Bureau of Narcotics, would appear to be definitely contrary to the position taken by the President in his memorandum above quoted.

Since

Since the proposed bill, insofar as it affects the Bureau of Narcotics, would appear to be definitely contrary to the position taken by the President in his memorandum above quoted, it is suggested that the President's memorandum and the substance of the observations set forth herein be brought informally to the attention of the officials of the Treasury Department who are considering the proposed bill.

The procedure suggested above contemplates informal discussions with Treasury officials with a view to reaching an amicable informal agreement respecting the desired amendment of the bill without any formal expression of this Department's position. If the Treasury authorities should concur in this Department's position, they would take the necessary action to effect the amendment of the bill and no question would arise as to any differences of views between the two departments. If the Treasury authorities should not be willing to acquiesce in this Department's recommendation, this Department would then have for consideration the question of bringing the matter to the attention of the President for a decision. In the meantime, the Treasury Department would be requested informally to arrange for a postponement of the contemplated hearings on the bill pending the President's decision.

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February 13, 1936

Steve Early called up and told me that Al Rasquin (he's Collector of Internal Revenue for the first Collection District of New York, located at Brooklyn), wanted to go as a delegate from Long Island to the Democratic Convention. I gave my permission.

"What I want to state is that," the Secretary said to Mr. Grinn, "your job was to coordinate the Federal Housing activities out of that job for the Federal Government a program which would cover all various kinds of housing - that is all interested in it. From the standpoint of the President, I do not want to see any further work to have a recommendation as to how to do this matter. The H. H. Committee which you do with housing work."

Mr. Grinn's reply was, "We have had nothing after meeting and I feel that I have brought things from the various agencies together so that now there is no talk of duplication or overlapping, but if you expect me to coordinate these agencies and out of how to save it, I feel you may as well be done." Mr. Harcourt said, "I do not recommend to you that you do this. I don't want to make any recommendations. I want them to be yours."

"In the report which I presented of the Federal Housing policy," Mr. Grinn explained to the Secretary, "I did not have that you wanted any reports on coordinating the various agencies. I simply saw that a housing policy for the Federal Government."

The Secretary said Mr. Grinn saw how he has been working so possible cooperation in the department of putting into effect some of the various housing agencies and that he had not before the President a recommendation which was fairly possible where money could be saved and actually was when he got the his recommendations. Mr. Grinn said, "I do not recommend to you that you do this. I do not want to make any recommendations. I want them to be yours."

"My feeling," the Secretary said to Mr. Grinn, "is that the way you can best serve the President is to make it be

February 13, 1938

After the 9:30 group meeting was over, HM, Jr. asked Mr. Grimm, Mr. Oliphant and Mr. Haas to remain to discuss the memorandum prepared by Mr. Grimm, entitled "Housing Policy of the Federal Government," and particularly the points brought out by Mr. Haas in his critical study of Mr. Grimm's report.

"What I want to state is this," the Secretary told Mr. Grimm, "your job was to coordinate the Federal housing activities and out of that get for the Federal Government a program which would touch the various kinds of housing that we are interested in now. From the standpoint of the Treasury, I do not want to go any further than to have a recommendation as to how we can coordinate the 37 agencies which have to do with housing today."

Mr. Grimm's reply was, "We have had meeting after meeting and I feel that I have brought these men from the various agencies together so that now there is no talk of duplication or overlapping, but if you expect me to coordinate these agencies and out of the 37 make 4, I tell you now it can't be done." Mr. Morgenthau said, "I am not recommending to you that you do this. I don't want to make any recommendations. I want them to be yours."

"In the report which I presented of the Federal Housing policy," Mr. Grimm explained to the Secretary, "I did not know that you wanted any report on coordinating the various agencies. I simply set down a housing policy for the Federal Government."

The Secretary told Mr. Grimm how hard he had been working on possible economies to the Government by cutting allocations made to the various lending agencies and that he had put before the President a memorandum which set forth precisely where money could be saved and actually put down in writing his recommendations "irrespective of whose feelings he hurt." He said to Mr. Grimm, "As far as coordinating the agencies is concerned, we are no further ahead than when you came down," to which Mr. Grimm replied, "That is not so."

"My feeling," the Secretary said to Mr. Grimm, "is that the way you can best serve the President or me would be to

TREASURY DEPARTMENT

February 14, 1952

review what you are doing and say that this is good, or this is bad or this is no good." He also explained that he made his recommendations to the President of what we should do on the various lending agencies, but did not touch on housing. He said, "To go ahead and say that we will launch a new program when we do not know where we stand is ridiculous. What is the picture of our present set-up? I feel that the President is entitled to know that." Mr. Grimm then explained his position. He said, "To give the President such a report is putting me in a tough spot." The Secretary remarked that we must have a "weeding out" process now. "I do not think a new housing program should go out and have a Treasury label on it. From the Treasury standpoint, I want only a report on coordination of the Housing activities."

If policy are outlined and each agency is responsible  
 whether action will be possible or not. I think  
 our ultimately success depends on the quality of the  
 staff.

For your information, prior to the White House  
 conference yesterday, I visited a representative group of  
 witnesses of General's program. I visited them after the  
 available for you to call to the State Department  
 For the President's reference, he may wish to  
 refer to the same.

## TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 12, 1936

TO Secretary Morgenthau  
FROM Mr. Haas *EH*

Oliphant has discussed with me the memorandum which Grimm gave him with the request that a bill be drawn. His and my position is that you can't talk about drawing a bill until the underlying questions of policy are settled and that Grimm's memorandum neither raises all the questions of policy involved nor adequately treats the limited number which it does raise.

For your information, prior to the White House conference tomorrow, I attach a preliminary draft of our criticism of Grimm's document. A revised draft will be available for you to take to the White House tomorrow for the President's information, in case you want to give it to him.

Comments on "Housing Policy of the Federal Government"

I. SUMMARY

This memorandum contains a very superficial and vague analysis of the housing problem and a sketchy, mainly negative, suggested program for Federal action. The author divides the problem into two parts, economic and social. However, no evidence is given in the memorandum of a full appreciation of either the basic economic or social problems involved, although the dimensions of these problems are apparent from a comparison of current housing facilities with the potential field for development of such facilities.

Surveys by many public and private bodies agree that there exists today in every part of the country a serious shortage of adequate housing for the families of America. In many places lack of sufficient houses appears; in every place replacement of insanitary, badly constructed, and poorly equipped houses creates a vast need for new construction.

The greatest need of the country is for housing for that large proportion of the population which can only afford to build or to live in houses costing far less than the majority of those erected in the past. In the memorandum under discussion, the great undeveloped opportunity which this field presents to American industry, American labor, and American capital has been largely ignored. Probably no other industry faced year after year with such a huge reservoir of

unfilled needs has left them unexplored. This problem dwarfs all others in the construction field today; yet the author of the suggested program for a Federal housing policy has failed completely to grasp it.

The present memorandum is concerned entirely with a criticism of the "Housing Policy of the Federal Government." In the absence of challenging ideas in the latter memorandum meriting detailed discussion, constructive suggestions must wait on further independent study of the basic aspects of the problem.

## II. ECONOMIC ASPECTS OF PROBLEM

### 1. Only superficial remedies suggested.

Turning first to the "economic problem," the author defines it as that of keeping the supply of housing in reasonable correspondence with the demand for it. By demand he obviously means effective demand in terms of present incomes and the present structure of the building industry, not the potential demand which would become effective if people had more money, or if the building industry found ways of supplying what is wanted at a price that people can pay.

### 2. Assumption made that private builders met housing needs successfully in past.

The author assumes, first, what is gravely open to question, that private enterprise has done a good job in the housing field in the past and therefore can be depended upon to do it again in the future. All that is needed or desirable, he feels, is (1) further stimulation of credit through existing Federal agencies, (2) extension of the inspection work of the Federal Housing Administration, (3) research into

*Nothing of the sort*

the question of housing standards and housing needs which the building industry can make use of as it sees fit, and (4) some efforts at reducing costs through anti-trust activities and changes in the tariff.

*Am done it with  
J.H.P.  
H.H.P. memo*

Little effort is made in the memorandum to embody even these suggestions into a definite program of action. Throughout, stress is laid on the necessity for avoiding competition with private enterprise and for furnishing such enterprise "with every reasonable encouragement to perform its part in the solution of the economic problem."

3. Evils of speculative building ignored.

In stressing the desirability of encouraging private enterprisers now engaged in building, the author apparently ignores the fact that a very large part of residential construction in the United States has regularly been the product of speculative building.

At one point in the memorandum (page 4) he seems to recognize that the activities of speculative builders were in part responsible for the collapse of the building industry during the depression and for the chaos in which the mortgage market found itself at that time. But this point is passed over with mere mention of the desirability of preventing another boom in which "quality will be sacrificed to quantity." The author of the memorandum appears to feel that some anticipation of the housing shortage through building new homes before the shortage begins to develop will be sufficient to prevent a recurrence of the evils which were associated with speculative building during the 1920's. He notes the desirability of continuing the inspection of dwellings the mortgage of which are insured under FHA, and makes a vague reference to

further research regarding building standards. But the large-scale erection of shoddy structures which collapsed within a few years, the high-pressure salesmanship which induced those who really could not afford homes to buy them, and the excessive selling, interest, financing and refinancing charges -- all outstanding characteristics of commercial home building in this country in the past -- are apparently considered unworthy of serious attention, since there are few if any suggestions in the memorandum leading toward the prevention of these abuses in the future. Almost exclusive reliance is once more to be placed upon unaided private initiative for the achievement of both the economic and the social objectives of the housing policy, despite the fact that its own past record constitutes a serious indictment of the industry.

4. Failure of housing industry to meet housing needs unrecognized. !

Further, the most serious aspect of this indictment lies not in the collapse which was witnessed during the depression, but in the failure of the industry even in better times to meet the huge and tangible need for housing on the part of the low-income groups.

In sharp contrast to automobiles, where a better and better product at a lower and lower cost was developed, the building industry persisted decade after decade in offering a product which could meet the needs of only a small number of those who in fact required new housing. A study made at Purdue University on the basis of figures developed by the Brookings Institution shows that a \$2,500 house is too expensive for 35 percent of American families, a \$3,400 house is too expensive for more than half of them, a \$5,100 house is too expensive for three-fourths of

the total number of families in this country, and a \$6,100 house is too expensive for 80 percent. Yet studies in actual construction undertaken by the same university indicate that it is impossible under conditions now prevailing in the building industry to construct a sound house of adequate size to accommodate the average family for much under \$5,000, even though such houses be built without luxuries and with few modern conveniences. The same investigators report that for the first ten months of 1935, the average contract price for single-family dwellings was \$6,400. The building industry has therefore clung to a product which only 25 percent of American families, all needing some sort of housing, can afford. Research on the part of individual material manufacturers has been almost solely along the lines of a better product at higher prices. Yet the author of the memorandum under discussion would continue to leave the provision of housing for the American people in the hands of an industry which has failed so conspicuously to supply it in the past.

*What is suggested*

5. Secondary aspects of economic problem also ignored.

Certain less fundamental aspects of what may be called the economic as against the social aspects of the problem have been equally ignored. For example, though the memorandum is concerned mainly with urban housing, there is no reference to the highly debatable question of whether urban workers should be encouraged to own their own homes. There is likewise no discussion of the crucial difficulty in the way of individual home ownership in cities -- the necessity of buying rather than leasing land.

In summary, it may be said that suggestions regarding stimulation of the private building industry show no signs of having been framed on the basis of fundamental analysis of the characteristics of that industry or of the possibilities which it may hold for bettering its past record in the future. With the addition of minor improvements, "the unaided efforts of private enterprise" are assumed to be capable of attaining "the greater part of this objective (adequate housing for every one in the United States)."

### III. SOCIAL ASPECTS OF PROGRAM

The author obviously intends to reserve only a limited field for Governmental aid. This field is defined as the provision of shelter for "families who cannot afford to rent adequate housing unless a subsidy incorporated in the financial structure of that housing permits a rent lower than would otherwise be economically sound."

#### 1. Need for subsidized housing much greater than is indicated.

The figures quoted above from the Purdue study indicate that the need for subsidized housing, far from being a negligible part of a housing program, is vast and pressing, and one which private industry has made no effort to meet.

*Not said*

#### 2. Subsidized housing suggestions minimize local financial problems.

The measures which are suggested for advancing what is termed the "social" as against the economic program, are sketchy indeed. The author of the memorandum continually stresses his belief that subsidized housing projects should initiate with States and localities, be financed in part by them, and be administered by local officials during the life of the

project. Yet few of the States and localities in the past have shown sufficient interest in this problem to promise well for the future, and even if they should be aroused to a full appreciation of their needs, it is not made clear how the State and local governments are to find the money for such ventures.

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The troublesome problems of State constitutional limits on borrowing power, recent increase in relief burdens to be met by State funds, inadequacy of State revenue systems and the difficulty of expanding such revenues greatly in the near future -- none of these matters are touched on. The reputed unwillingness or inability of States and localities to raise the money necessary to participate in any large number of Public Works programs in which the Federal Government paid only part of the costs is in point. There are suggestions in the memorandum that Federal loans to States should be contemplated where States are unable to participate in financing; but it is implied that these drafts on Federal funds can be kept down to a small figure.

4. Minor recommendations unsupported by factual data.

Brief reference may be made to certain details of the program. For example, the \$5 per room rent for low-income groups, the 1 million unit building program, and the 5 percent return on equity are all unsupported by data which would clarify the reasons for choosing these figures. Moreover, the author is very chary of providing Federal guarantees, whereas this form of aid is cheapest, most productive, and most capable of insuring desirable standards.

*Detail here*

5. Further study necessary

In summary, the entire social program, as presented in the memorandum, appears to rest on a most inadequate appreciation of the dimensions of the problem and of the measures which will have to be taken to meet it, even in small part. The author of the proposals may have at hand much more thorough-going analyses of the basic economic, financial and social questions involved in the present housing situation than are contained in the memorandum. In the absence of reference to such analyses or indications that conclusions have been framed on the basis of them, it would be fruitless to give detailed consideration to the program, point by point, without further independent study of the basic problems involved.

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HOUSING POLICY OF THE FEDERAL GOVERNMENT

1. The problem of housing in the United States may be divided into two parts - the one economic, the other social. The economic problem is to keep the supply of houses and apartments in reasonable correspondence with the demand for them. The social problem is to supply a sufficient number of decent dwellings for the rehousing of those who now occupy decayed and insanitary buildings. A part of the social problem is to destroy the decayed and insanitary buildings from which the tenants have been removed.

2. In these two parts of the housing problem is involved a governmental problem of the first magnitude - namely, the extent to which private agencies, State and local Governments, and the Federal Government should participate in their solution.

PART I

FEDERAL PARTICIPATION

3. There are many aspects of the housing problem in which direct participation by the Federal Government is clearly in the national interest; there are other aspects in which direct Federal intervention is unwise as a permanent policy.

4. In the latter category may be placed all those activities which are involved in the physical creation of houses, in their operation after completion, and conversely in their desolition after decay. The selection and acquisition of sites, the construction of buildings, the general control, supervision, and day-to-day management of housing projects, are not matters falling within the province of the Federal Government. They are matters the responsibility for which must be

borne by private enterprise and State and local Governments.

5. On the other hand the Federal Government has a distinct interest in encouraging and stimulating State and local Governments and private enterprise in meeting their responsibilities. The collection and dissemination of information, the extending of technical assistance, even the granting of financial aid, are proper functions of the Federal Government.

6. In addition the Federal Government can aid in the solution of the housing problem proper (that is, in the physical construction and demolition of houses) through its activities in broader fields. Its efforts to raise the national income, to revive the construction industry, to reconstitute the mortgage structure of the country, to develop new kinds of credit, all affect housing in one way or another. In fact, these indirect approaches to the housing problem can be more productive of results than any program of direct Federal construction and demolition.

7. In the greater part of the housing field there is little question that construction and demolition are non-Federal responsibilities. In the areas of slum-clearance and of publicly-subsidized housing, however, a substantial group believe that the Federal Government should itself clear slums and erect houses. Others hold a contrary view.

8. The argument of the former group is that if State and local Governments fail in their responsibilities, by choice or by necessity, those responsibilities are automatically transferred to the Federal Government. Should this view be accepted by the Federal Government? For the doctrine that the Federal Government may assume local responsibilities or that State and local Governments may slough them off must inevitably lead to the centralization of not only housing but of most other local functions and the

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substitution of a single for a dual form of Government. If even in one community the Federal Government shows itself willing to bear the full cost of meeting a local need, it will be politically impossible to prevent other communities from economizing in like manner at the Federal expense. And when the provision of housing has been established as a National responsibility other local responsibilities will similarly be passed along.

9. From an administrative point of view this centralization would be unfortunate. For the United States covers so vast an area that local affairs cannot with efficiency be centrally controlled. The argument for centralization drawn from the experience of foreign nations is not applicable to the Federal Government, although it may with reason be applied to the State Governments. Local officials with their greater knowledge of local needs, with their more intimate interest in local affairs, with their nearer responsibility to local public opinion, will be far more effective than Federal officials, distant in space, largely ignorant of local conditions, and theoretically rather than vitally interested in housing improvements.

10. The Federal Government should therefore bring its construction program to a close and direct its efforts to stimulating and encouraging state and local Governments to construct houses and clear slums.

## PART II

### THE ECONOMIC PROGRAM

11. The United States has just passed through a period of depression. Little or no residential building has been done for half a decade; many buildings existing at the beginning of the depression have been destroyed or have been allowed to fall into disrepair.

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12. Now, with recovery becoming increasingly evident, a demand for new and better quarters is making itself felt. Families which resorted to joint occupancy during the depression are seeking separate dwellings; the normal annual increase in the number of families is being accelerated through marriages theretofore deferred; the movement of population from city to farm has been reversed. Throughout the country falling residential vacancies and rising residential rents point towards an impending housing shortage.

13. If an uncontrolled shortage is allowed to develop, the result will be sky-rocketing prices and sky-rocketing rents, followed by a period of excessive building activity when quality will be sacrificed to quantity. In due course this will lead to an over-supply of houses, an unsound mortgage structure, and an economic collapse.

14. The solution of the economic problem is to build new houses and renovate old ones in advance of a housing shortage. By so doing the boom may be partially anticipated and its evils mitigated.

15. The prime agent in this program should be private enterprise.

16. The participation of the Federal Government should be limited to:

1. Effecting a better organization of home credit through the Farm Credit Administration and the Federal Home Loan Bank System, through the mutual mortgage insurance of the Federal Housing Administration, through the activities of the Reconstruction Finance Corporation and the National Mortgage Associations to be established under the National Housing Act, and through the Federal

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Reserve System's discount facilities and control of rediscount rates.

- ii. Minimizing bad planning and construction through the inspection work of the Federal Housing Administration.
  - iii. Research in the nature and use of building materials, through the Bureau of Standards;
  - iv. Influencing construction costs through tariff policies and anti-trust law enforcement;
  - v. Statistical studies related to housing, such as those conducted by the Bureau of the Census and the Departments of Commerce and Agriculture.
17. These activities should stimulate building by reducing mortgage risk and consequently the cost of mortgage money, by reducing construction costs, and by furnishing a sound basis for estimating housing needs.
18. Subsidies in the form of existing Federal guarantees should be discontinued as soon as practicable.
19. In order to provide private enterprise with every reasonable encouragement to perform its part in the solution of the economic problem, it will be of the utmost importance that all governments, Federal, State and local, in aiding the solution of the social problem, avoid competition with private enterprise. Governments should confine their activities in direct aid of dwelling construction to spheres in which private enterprise can not serve the housing needs of the people.

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## PART III

## THE SOCIAL PROGRAM

Statement of Problem

20. The ultimate social objective of a housing program is the provision of adequate housing for everyone in the United States.

21. The greater part of this objective will be attained through the unaided efforts of private enterprise. Governmental aid is unnecessary for those who own their own houses or who can afford to pay rents for which proper housing is available.

22. For persons of the lower income groups some governmental aid is necessary, if the rents required to support decent houses are to be brought into conformity with the rents which families in those income groups can afford to pay.

23. The provision of this governmental aid is the initial responsibility of State and local governments. It is proper, however, that the Federal Government should furnish financial assistance to State Governments in order to encourage them to develop housing programs.

24. For the present the Federal Government should confine its efforts to the most urgent part of the problem - urban housing. As soon, however, as any state develops a sound program for rural housing the Federal Government should assist it. The Federal Government should proceed with its urban housing program as rapidly as States are willing to take it up. A successful program in one or two States will encourage imitation in other States.

Income Groups

25. For the purposes of the Program the population of the United States may be divided into four groups:

- (1) Families with incomes sufficient to buy or rent adequate housing put up by private enterprise
- (2) Families with incomes sufficient to rent dwellings put up by limited dividend corporations
- (3) Families who can not afford to rent adequate housing unless a subsidy incorporated in the financial structure of that housing permits a rent lower than would otherwise be economically sound.
- (4) Families who are so poor that they require a rent allowance in order to enable them to live even in subsidized housing.

26. The income levels which divide these groups vary in different communities and in a single community at different times. They vary even more widely between urban and rural families.

27. The Federal Government is concerned primarily with the third of these groups. The first group needs no governmental financial aid and the second needs only government cooperation and such aid as municipalities may see fit to furnish. The fourth group must depend largely on local relief to raise its income to the level of that of the third group.

#### Initiation of Projects

28. The initiation of slum-clearance and low-rent housing schemes should be local.

29. To make the Program effective it will be necessary for each community to make a quantitative analysis of its needs and a schedule showing the rate at which it is practicable to meet those needs. The number and size of families requiring improved dwellings should be known, and the proportions which can be housed in renovated, enlarged, or new buildings should be estimated. Areas requiring slum clearance should be designated. In this work a Federal investigative agency may properly assist.

#### Housing Standards

30. Where Federal aid is sought, the projects to be aided must conform to certain minimum standards with respect to number of rooms per family, size of rooms, light, air, water, sanitation, fire protection and the like. The methods by which these standards are satisfied will vary in different parts of the country.

31. While some variation in standards is desirable in order to conform to local habits and conditions, care should be taken not to confuse essentials with conveniences. Subsidized housing should not be brought into direct competition with adequate housing built by private enterprise.

#### Mortgage Credits

32. The setting up of mechanisms to provide mortgage credits for government-aided housing projects at minimum costs consistent with sound financial practice is a function of private lending institutions or, in their default, of State and Local governments. The Federal Government should, however, remove the present obstacles to the creation of National Mortgage Association and should give them power to make mortgages on large-scale housing projects.

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53. Where governments enter the mortgage field in lieu of or in competition with private lending institutions they should obtain their lending funds by the sale of housing bonds. These bonds should not be tax-exempt nor guaranteed; they should be secured solely by the low-rent housing mortgages held by the government concerned. The floating of tax-exempt or guaranteed bonds would prevent private lending institutions from entering the field.

54. A very low interest rate will be justified on mortgage bonds of this type, for, inasmuch as the housing will rent below cost, there will be little danger of vacancies.

55. The mortgages should be insured under the Federal Housing Administration plan.

56. The Federal Government should not make direct housing loans except in the cases of States where peculiar circumstances make it impossible for private or public lending institutions to make housing loans at reasonable rates of interest. In such cases the Federal Government, through the RFC Mortgage Company, should make housing loans to the State governments at a rate of interest reflecting the basic integrity of the projects involved. The State governments may then reloan this money to local authorities and limited dividend corporations. The borrowing States should pledge their full faith and credit to the repayment of the loan and should turn over the mortgage as security to the RFC Mortgage Company.

57. In developing a sound credit system for low-rent housing no sources of credit should be overlooked. Employers, trade-unions, groups, prospective tenants, banks and insurance companies, and general public, should be encouraged to invest their funds in low-rent housing mortgage

bonds. Governments may also properly invest a certain proportion of their Social Security Funds and other trust accounts in these securities.

Acquisition of Sites, Planning, Construction and Financing.

38. Every effort should be made to acquire sites by private contract for government aided housing. Only where this can not be accomplished with reasonable speed should local authorities resort to condemnation. The amount to be paid for sites should be measured by the estimated income of the projects proposed for such sites. The police power to order the vacation or destruction of buildings unfit for habitation should be exercised before the site is condemned. A reasonable price should, of course, be paid for buildings which, though sanitary and in good repair, must be torn down to clear areas selected for rehabilitation.

39. Municipalities should be encouraged to develop a town plan and to adopt proper zoning ordinances in order that the neighborhoods in which new low-rent housing is erected should not be invaded by uses which would depreciate their value for residential purposes.

40. Construction is also a local responsibility. The Federal Government should not engage in it. Federal participation should be confined to audit of projects approved for aid. The housing should be built to give 60 years of good service.

41. Financing should be by long-term mortgage bonds covering up to 100 per cent of the cost of the project.

42. In order to provide a proper margin of safety, a sufficient part of the total cost should be amortized in the first half of the mortgage term, so that only forty per cent remains to be amortized in the second half.

Grants-in-aid

43. The subsidy should take the form of a capital grant per person housed or per room, payable in annual installments over a term of years coincident with the term of the mortgage. The amount of the grant should be such as to permit a country-wide average urban rent of \$5 per room per month.

44. The Federal Government should undertake to pay 40% of the annual installment and the State and local governments, jointly or severally, should put up 60%. Projects to be aided in this manner must be contracted for by June 30, 1941.

45. The maximum number of non-farm dwelling units to which the Federal Government will make grants during the next five years may tentatively be placed at 1,000,000.

46. Rent allowances or other financial assistance in addition to the annual installment should not be borne by the Federal Government but should be met out of local funds, public or private.

47. All the grants together with rents should be sufficient to meet operating expenses, taxes, interest, amortization, and return on equity.

48. The Federal share of the annual installment should be payable only so long as the owners meet the following conditions: (1) keep their properties in repair; (2) restrict their rents to an average of \$5 per room per month, or such other average as may be appropriate for the community where the housing is located; (3) restrict return on the equity (if any) to 5%; and (4) restrict occupancy to families who can not afford an economic rent.

49. The Federal grant should be administered by a Federal agency which should determine the eligibility of projects for grant and should

determines whether the aided housing is being operated in accordance with the conditions of the grant. Cancellation of the grant in case of violation of such conditions should rest with this agency, subject to review by the courts.

50. Grants and rents should be subject to revision from time to time in the light of changed economic conditions. Revisions in grants should be compensated by changes in rent levels, not by impairment of the mortgage security or the return on equity.

Management

51. Management of projects should be under State and local control, but subject to Federal audit if they are aided by Federal grant. In the case of a local authority managing its own projects, safeguards against political manipulation should be set up. This can be accomplished either by setting up a Housing Authority, the directors of which are selected by appointing Trustees, namely, the Governor, the Mayor, and the heads of the leading civic, professional and labor associations, or by the local Executive from lists submitted by such associations. Where authorities already exist upon a satisfactory basis, changes in appointing methods should not be required.

52. In the case of limited dividend corporation and local authorities which operate more than one assisted housing project, provision should be made for pooling the grants and risks involved in the several ventures. In this way savings can be made in overhead expenses, permanent repair personnel can be maintained, and greater flexibility will be possible in adjusting rents to the means of tenants.

February 13, 1938

I spoke to Peoples and Gaston today about the four-color printing of the Baby Bond circular and we decided against having a four-color job done. The circular will be printed in black and white, and we will have the Public Printer do the work.

February 13th

After H.M.Jr. came back from the White House he called Bell in and told him the following:

I saw the President this morning and showed him the figures on the bonus financing and he read these pages very carefully. I then asked him whether it will be all right to sell 50 million a week of bills and he said, "yes but will they not say that we are putting it off until after election" and I replied, "they may but I would rather have them say that and have to raise a billion and a half less cash through bonds and notes". He O.K'd it.

Then he said, "what about taxes. When are we going to get down to taxes", so I showed him the memorandum that Bell had prepared on the three A's which showed that for the fiscal year 1936 and 37 the combined deficit for these two years was 1 billion 017 million above our original estimates. He was very much disturbed and said, "I do not believe these figures and if they are right we can't begin to raise that much money through taxes" so I said, "I think they are right Mr. President" and he replied, "have Agriculture check these figures at once". I am now asking Bell to get ahold of Chester Davis and ask him to come over to the Budget and immediately go over these figures.

I spoke to the President about the Seed Loan Bill and, from the way he answered me, I could see that he had every intention of signing it so I said, "now Mr. President you better not sign this bill after the statements you made this last week on economy without first seeing Bill Myers, Wallace, Tugwell, Bell and myself because in Tugwell's Agency you set up a new group which loaned money to farmers and there has been no money provided in the budget and the only possibility that I see is that you may get this money out of FCA." The President then replied, "well have Bell get in touch with FCA and see if there is any place that we can get the money to pay Seed Loan". The President left the impression with me that he was more or less committed to some kind of Seed Loan but not a \$50,000,000 bill. I think that we can get away with a \$30,000,000 or even a \$20,000,000 Seed Loan. I furthermore pointed out to him that last year's Seed Loan was paid for out of the 4 billion 8. I am quite sure if I had not spoken to him this morning he would have signed the bill without either speaking to Bell or me but now I am quite sure that he will do nothing without first having a meeting.

I told him that Bell was seeing Jesse Jones Monday and asked him whether he would not see us and the Lending Agency group again because Bell and I felt sure that we could not accomplish anything unless he helped us. He told me to arrange with McIntyre for a meeting.

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I told him that I was very much disturbed about Peter Grimm's memorandum on housing - that he only scraped the surface - that the memorandum was not at all social-minded and that I did not want the Treasury to make recommendations on housing and that it should come from some other agency and the President said, "you are absolutely right. It should come from the Central Housing Committee." I also told the President that Grimm was leaving on March 1st.

EFFECT ON BUDGET OF BONUS EXPENDITURES

(In Millions)

Amount required to redeem certificates, less liens	\$2,490
Estimated amount of certificates to be retained by veterans	<u>250</u>
Estimated payments to veterans and banks	2,240
Estimated administrative expenses	<u>12</u>
Total required	2,252
Amount available in Adjusted Service Certificate Fund	<u>253</u>
	1,999
Amount of annual appropriation already included in 1937 Budget which was to be available on January 1, 1937 for investment which may now be withdrawn	<u>160</u>
Increase in combined deficits for the fiscal years 1936 and 1937	<u>\$1,839</u>

	Fiscal Year <u>1936</u>	Fiscal Year <u>1937</u>
Estimated amount of bonds to be issued	\$1,600	\$490
Estimated cash payments to veterans for odd amounts	55	35
Estimated cash payments to banks to redeem veterans loans	60	—
Estimated administrative expenses	<u>7</u>	<u>5</u>
	1,722	530
Less available funds and amount already included in the 1937 Budget	<u>253</u>	<u>160</u>
Increase in deficits	<u>\$1,469</u>	<u>\$370</u>

BONUS FINANCING

(In millions)

Month	Estimate of bonds to be issued	Estimate of cash require- ments
1936		
March	--	\$ 1
April	--	2
May	--	2
June	\$1,600	117
July	250	400
August	200	300
September	150	250
October	40	200
November	--	50
December	--	50
1937		
January to June	--	133
	<u>\$2,240</u>	<u>\$1,505</u>
Administrative expenses	<u>12</u>	
	<u>2,252</u>	
Certificates to be retained by veterans	<u>250</u>	
	<u>\$2,502</u>	

Bonds to be issued to Government Life for which no cash is required at present	507
Bonds to be retained by veterans	<u>240</u>
	<u>\$2,252</u>
Certificates to be retained	<u>250</u>
	<u>\$2,502</u>

BUDGET DEFICITS

(In Millions)

	<u>Fiscal Year 1936</u>	<u>Fiscal Year 1937</u>
Deficits as shown in 1937 Budget, including debt retirements	\$3,234	\$1,098
Add estimated amounts required because of AAA decision	<u>493</u>	<u>524</u>
Deficit after adding AAA payments	3,727	1,622
Add bonus payments	<u>1,469</u>	<u>370</u>
Deficit after adding AAA and bonus payments	<u>\$5,196</u>	<u>\$1,992</u>

Proposed Taxes

Estimated taxes (assumed payments will be made in 1937)

Processing taxes	\$345
25% tax on undistributed corporate earnings	375
90% tax on processors' income from cancellation of processing taxes passed on to consumers	<u>150</u>
Total estimated taxes	<u>\$870</u>

AGRICULTURAL ADJUSTMENT ADMINISTRATION

(In Millions)

	Fiscal year 1936		Fiscal year 1937	
	In Budget	Revised after AAA Decision	In Budget	Revised after AAA Decision
Estimated expenditures on all accounts	\$621	\$655	\$619	\$596
Processing taxes	<u>529</u>	<u>68</u>	<u>547</u>	<u>---</u>
Deficit	\$ 92	\$587	\$ 72	\$596
Estimated expenditures from processing taxes	\$531	<u>1</u> 563	\$549	<u>2</u> 526
Processing taxes	<u>529</u>	<u>68</u>	<u>547</u>	<u>---</u>
Deficit	\$ 2	\$495	\$ 2	\$526

<sup>1</sup> Actual obligations to Jan. 31, 1936, chargeable to processing taxes \$353M  
 Estimated payments to be made in 1936 from new appropriation of \$296M 210M  
\$563M

<sup>2</sup> Estimated payments to be made in 1937 from new appropriation of \$296M \$86M  
 Estimated payments to be made under proposed new legislation 440M  
\$526M

Total deficit for fiscal years 1936 and 1937 in processing taxes \$1,021M  
 Deficit shown in 1937 Budget 4  
 Increase in combined deficits \$1,017M

Estimate of processing taxes for fiscal year 1936 \$529M  
 Collected 68 \$461M  
 Estimate of processing taxes for fiscal year 1937 547  
 Loss in revenue 1,008M  
 Net change in estimate of expenditures for 1936 and 1937 9  
 Increase in combined deficits \$1,017M

AGRICULTURAL ADJUSTMENT ADMINISTRATION EXPENDITURES

(In millions of dollars)

	Chargeable to General Fund	Chargeable to Processing Taxes	Chargeable to Appropriation of \$296M	Chargeable to Appropriation to be provided under proposed new legislation	Total
<u>1936</u>					
July to January	61	282 (net)			343
February	4	3	26		33
March	8		73		81
April	8		51		59
May	6		35		41
June	5		25		30
Total, 1936	92	285	210		587
<u>1937</u>					
July	9		30	17	56
August	9		25	24	58
September	7		15	39	61
October	7		10	45	62
November	5		4	44	53
December	6		2	43	51
January	4			40	44
February	5			40	45
March	4			36	40
April	5			50	55
May	4			32	36
June	5			30	35
Total, 1937	70		86	440	596

February 14th

Mr. Morgenthau called Irey, McReynolds and Mrs. Klotz in and told them, in strictest confidence, that Helvering had come in to see him yesterday and said, "now in regard to some of these investigations - with the campaign coming on I think that they all ought to clear through me". He particularly referred to some investigation made by Irey in Denver and West Virginia where a Senator was very much upset.

H.M.Jr. made the following statement to us: "I want to tell you that my original orders hold true, campaign or no campaign. I will not pull my punch for anybody. I do not want Helvering to act as a censor between you, Irey, and me. My orders have not changed a bit. I want them to continue. Please don't tell Helvering of our conversation but if he is influenced politically in connection with his job as Commissioner I want you to tell me.

SAVINGS TO BE MADE FROM ALLOCATIONS

Agriculture Department . . . . .	\$ 5,000,000
Commerce Department . . . . .	1,600,000
Interior Department . . . . .	12,000,000
Advisory Committee on Allotments . . . . .	24,000
National Resources Committee . . . . .	84,000
Public Works Administration . . . . .	?
Department of Justice . . . . .	25,000
Treasury Department . . . . .	10,000,000
War Department . . . . .	10,000,000
Emergency Conservation Work . . . . .	?
Employees' Compensation Commission . . . . .	10,000,000
Federal Emergency Relief Administration . . . . .	9,000,000
Comptroller General of the United States . . . . .	1,000,000
National Emergency Council . . . . .	150,000
Resettlement Administration . . . . .	?
	<hr/>
Total . . . . .	\$ 58,883,000
	<hr/>

February 14, 1938

HM, Jr. sent for Jackson and Oliphant this morning and told them that the President had asked him to get their advice about Trammell, a member of the Board of Tax Appeals, who has received a business offer and wants to resign. The President also had asked him whether he, the President, ought to talk to Judge Black about it and HM, Jr. said he could, because Black has been very friendly. He advised the President, however, to check this with the Vice President as Black comes from Texas and HM, Jr. is under the impression that the Vice President was the one who put Black on the Board. Jackson agreed that this ought to be verified with the Vice President.

The President's attitude is that if he insists that Trammell stay, he will be in a bad humor and work against us in the Mellon case. On the other hand, he feels that if we let him go and we win the Mellon case, the comment will be that we got rid of him because we were afraid he would work against us and we would be criticized for stooping to such practices, etc.

Jackson then told the Secretary that Trammell had been in to see him. Trammell said he had had an offer from the Associated Gas and asked Jackson's advice as to whether he should accept. Jackson advised him to stay away from Associated Gas.

Jackson also said that after the Mellon case adjourned, Trammell again came to him and said he had three people who want to give him their business and that one of them was the Du Pont company. Jackson reported that Trammell said to him, "I have been over to the White House and left my resignation. I saw the President and he said, 'You can't resign. You must stay.'" He also said that the President had urged him not to go. Trammell also mentioned that he had talked to McIntyre and he did not remember which one it was, but either the President or McIntyre had advised him to speak to Jackson. Trammell, he said, had very frankly told him (Jackson) that this might be the only offer he would ever get and from a financial point of view he thought he ought to take it. Jackson feels, and so told the Secretary, that with that retainer dangling before Trammell all the time, he is a little afraid of him.

HM, Jr. told Jackson and Oliphant that probably the President at first sold Trammell the idea of staying, but after thinking it over has decided differently. He said his own decision is that he would not keep Trammell and would not be afraid of any criticism because we could always let the story go out that the Du Ponts had hired him and not that we got rid of him.

Jackson's advice was that the President should not renew the subject with Trammell, but if Trammell came back to the President and pressed to resign, the President ought to let him go.

HM, Jr. called the President and told him of his conversation with Jackson and Oliphant. The President was quite surprised to learn that Trammell had been made an offer by the Du Ponts. He asked HM, Jr. to have Jackson send over a memorandum giving him all the facts.

NOTE: The President today accepted the resignation of Mr. Trammell without the memorandum from Jackson.

February 14, 1936

HM, Jr. told Bell that Chester Davis said there was no need for a seed loan and that Bill Myers said we must have a seed loan. Following is a conversation which the Secretary had with the Vice President on the seed loan bill:

HM, Jr: Hello -  
John  
Garner: Hello, Henry, I was in the Senate Chambers so I -  
pardon me for not getting out any earlier.

HM, Jr: Well, I'm sorry to have disturbed you.

G: Oh, that's all right, old top, you can disturb me any  
time you want to.

HM, Jr: Well, now look, this is - I want - In the first  
place, you remember the thing that you and I talked  
about about publicity on that certain -

G: Yes, yes

HM, Jr: I talked to the Boss and he thought he'd want to wait  
until Congress went home.

G: Oh, that's good and then he can do it himself.

HM, Jr: And then do it himself.

G: Well, I think that's a damn good atti- because it's  
going to be a very good enlightening thing -

HM, Jr: Yes

G: - that's going to attract attention.

HM, Jr: Yes, he said he'd do it himself just as soon as Congress  
went home.

G: Well, God bless you, I think that's a wise thing.  
You know that old bird has got a lot of sense, Henry.

HM, Jr: Yes, I think so.

G: (Laughter) yes he's got an  
intuition as well as a brain -

HM,Jr: That's right.

G: (Laughter) All right, old top -

HM,Jr: Now wait a minute, wait a minute, that's the easy part. Now here comes the other part.

G: Yes

HM,Jr: After he left he called me back on this fifty million dollar seed loan -

G: Who was that?

HM,Jr: The Congress has passed a bill for fifty million dollars -

G: Yes

HM,Jr: - for seed loan.

G: Yes, I know -

HM,Jr: Now, you know, two years ago when he signed it he said it would be the last one he'd sign - ?

G: Yes

HM,Jr: Last year he took it out of the four billion eight.

G: Yes

HM,Jr: Now, here's what I told him - here comes the law on the Bonus, he vetoes it -

G: Yes

HM,Jr: Here comes along fifty million dollars for seed loan and he signs it -

G: Yes

HM,Jr: And it's not in the Budget -

G: Yes

HM,Jr: They really don't need it.

G: They don't need it - A God damned cent of it and everybody knows it and I believe he could veto it -

HM,Jr: Yes

- G: - ring a message around the country - it wouldn't offend a single farmer.
- HM,Jr: No - Rex Tugwell sat there and told him, 'Oh, Mr. President, you've got to sign it because they'll override your veto'.
- G: Well, they might do it.
- HM,Jr: Now I said, 'Mr. President, would you like me to go up on the Hill and sound out a couple of people and give them the Budget and Treasury view point?' And he said, 'Yes, go ahead.'
- G: Yes
- HM,Jr: And that's why I'm calling you up and wondered if I could impose on your good nature and if you thought it was good sense - good politics - if you could have Joe Robinson and the Speaker, come to your office and Bell and I'd come up there, and we'd have a little meeting.
- G: All right, you can do that, but you can come over here to my office and we'll send for them here in the Senate or we'll set it over in the Senate Office Building, just as you like.
- HM,Jr: Well, I mean, I'll come any place that you say.
- G: Well, all right, when?
- HM,Jr: Well, do they work tomorrow - do you want to do it - ?
- G: No, they don't work tomorrow, I don't believe. In the House they work tomorrow.
- HM,Jr: Yes, well do you think - Well, doesn't Joe Robinson work?
- G: Well, he may go visiting or something, I don't know about it. He's making a speech now on - in the Senate on this debenture outfit -
- HM,Jr: Well, I'll leave it this way - if you have a moment to find out about Joe and the Speaker -
- G: All right
- HM,Jr: Bell and I'll come any time that you send for us -

G: I'll find out and let you know.  
HM,Jr: Will you let me know this afternoon?  
G: I'll do it as quick as I can find out.  
HM,Jr: Right  
G: All right  
HM,Jr: Now, look -  
G: All right  
HM,Jr: Don't you think it's worth making the effort?  
G: Oh, yes, it's worth thinking about.  
HM,Jr: Right  
G: You bet  
HM,Jr: O K  
G: All right.

Friday  
February 14, 1936

Chester Davis: Henry, did Oliphant tell you the message I was trying to get to you last night?

HM, Jr: Yes, and I - within - I got it to McIntyre and he didn't know what I was talking about -

D: Yes

HM, Jr: He said he was going to call you, but he did go over and see the President.

D: I had already talked to McIntyre but he put me over on Charlie West who was there -

HM, Jr: Oh -

D: And West agreed to go in and talk to the President about it - West appeared to comprehend it all right -

HM, Jr: Yes

D: - last night -

HM, Jr: Yes, what happened?

D: Well, I haven't had any report - I don't know.

HM, Jr: - As long as I got you, what the hell is that bill, anyway?

D: It would -

HM, Jr: What?

D: I tell you, here's exactly what it would do. It would authorize the Secretary - it would require the Secretary of the Treasury to issue to exporters -

HM, Jr: Yes

D: - of corn, rice, wheat, cotton and tobacco -

HM, Jr: Yes

D: certificates at the rate of seven and a half cents for corn, a half cent a pound for rice, twenty-one cents a bushel on wheat, four cents a pound on cotton -

HM, Jr: Yes

D: - and two cents a pound on tobacco -

HM, Jr: I see.

D: No certificates would be receivable by the Treasury in payment of import duties on imports.

HM, Jr: I see.

D: In other words, what it would do, it would take our existing exports and those additional exports that might be encouraged by it and you'd issue certificates in the amount mentioned which would be sold to people who wanted to import goods from abroad - our regular dutiable imports, of course, would be the ones that they'd buy it for -

HM, Jr: Yes

D: And it would mean - our estimate here is just a rough, hurried estimate - it's somewhere between a hundred and seventy million and two hundred and forty million dollars of our present import duties would be paid in the form of these importing certificates and yield no revenue to the Treasury whatsoever.

HM, Jr: I see.

D: A fair estimate, I think, would be around two hundred million dollars that would be knocked out of your import revenue, you see, and be paid instead - just diverting that income from the Treasury to the exporters of these agricultural commodities.

HM, Jr: Yes, where is the bill now?

D: The bill is in the Senate as an amendment to ours and there's, according to our friends up there in the Senate, there's a real chance that it will be passed in the Senate.

HM, Jr: I see.

D: The work is done - now I talked to Cordell Hull last night -

HM, Jr: Yes

D: And he'd called the White House, but I don't think he called the President direct - they all seem to - he called Mac, you see?

HM, Jr: Yes

D: I called Joe Robinson and Cordell Hull did call Senator Smith, who agreed to oppose it. Robinson told me this morning he believed they could defeat it.

HM, Jr: I see.

D: But Senator Bankhead's office and Senator Murphy both tell me that they think that a vote yesterday would have passed it.

HM, Jr: Yes

D: Now, if it passes the Senate, when you get over in the House, Henry, if you remember, Marvin Jones introduced the first export debenture bill about ten years ago -

HM, Jr: Yes

D: He's introduced them periodically since and it would be, I think, fully inconsistent of Marvin to stand up there and put up much of a fight against it. So with the Committee Chairman in charge of the bill consenting to it, I don't know what would happen in the House.

HM, Jr: Would you like me to call Joe Robinson?

D: Well, I - I've already talked to him. I thought any contacts you have in the Senate - that are particularly -

HM, Jr: Well, the main thing is I'm going to talk to the President again in a few minutes and I'll bring it to his attention.

D: That's the important thing.

HM, Jr: I'll do that.

D: That's important.

HM, Jr: I've got to talk to him in a couple of minutes.

D: Yes, Henry, there's another thing. I thought you'd be interested in our cotton sales yesterday.

HM, Jr: Oh, yes

D: You know, fifty thousand bales.

HM,Jr: Yes

D: And received bids for two hundred and forty-seven thousand -

HM,Jr: No?

D: Yes, he let - immediately accepted up to fifty thousand -

HM,Jr: Yes

D: And is proceeding to sell on the other. He thinks this week he'll sell perhaps another twenty-five thousand -

HM,Jr: Grand

D: - on that and the market went up on the spot while he was selling. The reason being, I mean the market stiffened because there was such a splendid evidence of demand, see?

HM,Jr: Now is - which cotton is that?

D: This is the pool cotton.

HM,Jr: Now that's the money that we get back?

D: Yes

HM,Jr: Good

D: Yes

HM,Jr: That's very very encouraging -

D: Yes

HM,Jr: And that ought to kill the Smith Bill, wouldn't it or will it?

D: Well if there's any - if human beings were rational I'd say it would, but they're not.

HM,Jr: Yes

D: Yes

HM,Jr: Well, if I get hold of the President, which I have to - he asked me to call him -

D: Yes

HM, Jr: I'll talk and then I'll call you back, Chester.

D: All right, Henry.

HM, Jr: Thank you.

D: Goodbye.

February 15, 1936

Bell and I went on the Hill for a meeting that I asked the Vice President to call. We met at his office and the Speaker, Senator Joe Robinson and Marvin Jones were present. We were there to discuss the \$50,000,000 seed loan bill. I had come up to find out, if the President vetoed the bill, whether the Senate and the House would override his veto.

Senator Robinson started in to make a long speech. He thinks \$50,000,000 was merely a pittance and it went to people who were not reached by Work Relief and that it was their only contact with their Government. He left me cold as a cucumber. I had decided before going up there that I would not attempt to get into an argument as to the merits or needs for a seed loan bill, but confine myself solely to the fiscal needs of the Treasury and the Budget.

I told them that as matters stood now, the Budget for 1936-1937 was in the red \$1,017,000,000 due to AAA being declared unconstitutional; that every \$50,000,000 that was added to this sum meant that much additional taxes. I also argued that the more taxes we had to raise, the more fuel we added to the inflationary group who are opposed to raising taxes. I made some impression. I also argued, How could the President sign a \$50,000,000 seed loan just after having vetoed the soldiers bonus?

The Vice President, all through the argument, was most helpful. He is against all seed loans in principle and was in favor of the President's vetoing this bill.

The Speaker took a similar position. He said that he feels the House will not override the President's veto. Senator Robinson said the Senate would. The Speaker agreed to make a secret poll to see what the sentiment in the House was. He said he felt that there were enough people that come from cities and towns who would sustain the President's veto. The Speaker said he could let us know by Tuesday or Wednesday. He said he makes a poll of this kind through the Democratic whip, Pat Boland. He said he would also sound out the Republic minority leader.

As I left, Senator Robinson put his arm around my shoulders and said I had his sympathy in my problems.

I went away feeling that they received me much better

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than I could have hoped for and I got a distinct feeling of respect.

When I got back, I let McIntyre know about my meeting and I told him I could wait until Monday to report to the President unless the President really wanted to see me. He 'phoned back a little later that the President would see me at 12:45.

The President was in a very good humor. I reported on my meeting and he seemed pleased. He said, much to my surprise, "When you prepare a veto message for me on this, try to include in it a statement that when we get the new Work Relief money I will allocate certain funds out of it for seed loan." I did not want to argue with him on this point as I felt in twenty-four hours I got him to completely reverse himself and that was enough for one day.

He told me that he had seen Pat Harrison that morning and the President said, laughingly, "I used your figure, Henry, with Pat, of \$1,017,000,000, although I still say that that figure is all wet." This was his way of letting me know that after a number of days he finally convinced himself that our figures were correct. He said, "I told Pat that there would be a tax bill and that we had to raise the taxes to meet the AAA expenditures. I furthermore told Pat that I had come to no decision as to what kind of taxes and would say nothing and do nothing about it until I had discussed it with Pat first."

He then said, "Don't you think that we ought to send the tax message up about March 2?" and I said, "No, because that is the day we are going to announce our financing and I wish that you would send it up a week earlier so that whatever effect your tax message had would be behind us before our financing." He agreed to this.

In outlining his tax message he said that we should describe the various kinds of taxes that could be used, but he asked would the message show that it would definitely leave it up to Congress to decide what specific form the tax should take? This means that the Treasury has to get busy and get something to the President immediately.

I got a letter from Eugene Black, Jr., saying that he could not accept the Under-secretaryship on account of the illness of

his son and wife.

Friday  
February 14, 1936

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HM, Jr: Hello -

John  
Garner: Hello, Henry, I was in the Senate Chambers so I -  
pardon me for not getting out any earlier.

HM, Jr: Well, I'm sorry to have disturbed you.

G: Oh, that's all right, old top, you can disturb me any  
time you want to.

HM, Jr: Well, now look, this is - I want - In the first  
place, you remember the thing that you and I talked  
about about publicity on that certain ?

G: Yes, yes

HM, Jr: I talked to the Boss and he thought he'd want to wait  
until Congress went home.

G: Oh, that's good and then he can do it himself.

HM, Jr: And then do it himself.

G: Well, I think that's a damn good atti - because it's  
going to be a very good enlightening thing -

HM, Jr: Yes

G: - that's going to attract attention.

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Congress went home.

G: Well, God bless you, I think that's a wise thing.  
You know that old bird has got a lot of sense, Henry.

HM, Jr: Yes, I think so.

G: (Laughter) yes he's got an  
intuition as well as a brain -

HM, Jr: That's right.

G: (Laughter) all right, old top -

HM, Jr: Now wait a minute, wait a minute, that's the easy part.  
Now here comes the other part.

G: Yes

HM, Jr: After he left he called me back on this fifty million  
dollar seed loan -

G: Who was that?

HM,Jr: The Congress has passed a bill for fifty million dollars -

G: Yes

HM,Jr: - for seed loan.

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HM,Jr: Now, you know, two years ago when he signed it he said it would be the last one he'd sign.

G: Yes

HM,Jr: Last year he took it out of the four billion eight.

G: Yes

HM,Jr: Now, here's what I told him - here comes the law on the Bonus, he vetoes it -

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HM,Jr: Here comes along fifty million dollars for seed loan and he signs it -

G: Yes

HM,Jr: And it's not in the Budget -

G: Yes

HM,Jr: They really don't need it.

G: They don't need it - a God damned cent of it and everybody knows it and I believe he could veto it -

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G: - ring a message around the country - it wouldn't offend a single farmer.

HM,Jr: No - Rex Tugwell sat there and told him, 'Oh, Mr. President, you've got to sign it because they'll override your veto'.

G: Well, they might do it.

HM,Jr: Now I said, 'Mr. President, would you like me to go up on the Hill and sound out a couple of people and

give them the Budget and Treasury view point?' And he said, 'Yes, go ahead.'

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HM,Jr: And that's why I'm calling you up and wondered if I could impose on your good nature and if you thought it was good sense - good politics - if you could have Joe Robinson and the Speaker, come to your office and Bell and I'd come up there, and we'd have a little meeting.

G: All right, you can do that, but you can come over here to my office and we'll send for them here in the Senate or we'll set it over in the Senate Office Building, just as you like.

HM,Jr: Well, I mean, I'll come any place that you say.

G: Well, all right, when?

HM,Jr: Well, do they work tomorrow - do you want to do it -?

G: No, they don't work tomorrow, I don't believe. In the House they work tomorrow.

HM,Jr: Yes, well do you think - well, doesn't Joe Robinson work?

G: Well, he may go visiting or something, I don't know about it. He's making a speech now on - in the Senate on this debenture outfit -

HM,Jr: Well, I'll leave it this way - if you have a moment to find out about Joe and the Speaker -

G: All right

HM,Jr: Bell and I'll come any time that you send for us -

G: I'll find out and let you know.

HM,Jr: Will you let me know this afternoon?

G: I'll do it as quick as I can find out.

HM,Jr: Right

G: All right

HM,Jr: Now, look -

G: All right

HM, Jr: Don't you think it's worth making the effort?

G: Oh, yes, it's worth thinking about.

HM, Jr: Right

G: You bet

HM, Jr: O K

G: All right.

Saturday  
February 15, 1936

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W. Randolph

Burgess: Hello -

HM, Jr: Hello, Burgess -

B: Good morning, sir, how are you?

HM, Jr: I'm fine.

B: I'm expecting to take a train on Sunday night and be with you Monday morning and - program -

HM, Jr: That's - we've set aside all the time that you'll need -

B: That's swell -

HM, Jr: Beginning with ten o'clock and Bell's got all the figures and we'll have them ready at ten o'clock.

B: Well, that's fine, because I did want to suggest, there are a good many - the more I think about it the more implications I see in it that we need to explore pretty carefully.

HM, Jr: Do what?

B: That we need to explore it pretty carefully.

HM, Jr: You mean the bill idea?

B: Yes - and the timing of it and the question of balances and so on -

HM, Jr: Yes - Well, you still think it's a good way to raise the money, don't you?

B: Yes, but I wouldn't start right away, I think.

HM, Jr: You wouldn't?

B: My feeling now is that I wouldn't start until April first, anyway.

HM, Jr: Why?

B: Well, I think you're going to have uncomfortably large balances.

HM, Jr: Oh -

B: And doing it with bills - of course it takes it out of the market in cash so that you'd be lapping up excess reserves and doing the Federal Reserve Board job -

HM, Jr: Well -

B: I just want things to think about, that's all -

HM, Jr: Well - that's - I - I've given you ten days on this.

B: That's fine.

HM, Jr: You know, I mean - you've had all of this week to think about it -

B: That's right, yes.

HM, Jr: We don't have to start, of course, the thing that - that was pushing me to start it -

B: Yes

HM, Jr: But I thought it was only fair to let the bond market know how we were going to raise this money.

B: Yes, well, I don't think that's bothering them very much.

HM, Jr: You don't?

B: I've been checking the market pretty carefully -

HM, Jr: Yes

B: And we can go into it Monday and - my present hunch is that without knowing more about it that - that is from your point of view - that you can very well afford to wait until after the financing.

HM, Jr: Well, from the standpoint of getting the money and keeping ahead -

B: Yes

HM, Jr: April first is time enough.

B: Yes, yes

HM, Jr: But you might also have it in mind that we think we need

-3-

seven fifty cash exclusive of the Bonus.

B: Yes, yes, that's exactly what I think is about what you would want.

HM, Jr: What? - What we're figuring on - what we're going to show you is seven fifty in cash on the fifteenth of March and seven fifty on the fifteenth of June.

B: Yes

HM, Jr: If we do that, exclusive of the Bonus money, that'll take us through until after November.

B: Well, that's exactly the thing as I had in mind.

HM, Jr: Yes

B: Yes

HM, Jr: And then the other is counting on just turning - rolling them over.

B: That's right, yes, yes

HM, Jr: Is that what you were counting on?

B: Yes, that's just what I thought.

HM, Jr: And we could still start April one and keep ahead of the game.

B: Yes, you could.

HM, Jr: Yes, there's a good deal in what you say - if we get too big a balance it doesn't look so good either, does it?

B: Well then there's the Congress will get excited about it and it gets into the field of credit control, too, because this would mean taking money out of the market.

HM, Jr: I see.

B: That's no harm except that it - it's taking over part of the Federal Reserve Board's job.

HM, Jr: And it also increases our public debt.

B: That's right. And it would cause a lot of comment.

HM, Jr: Yes -

B: because -

HM,Jr: Well, I'm glad you spoke to me - now you've got our requirements and you can be thinking on that.

B: That's fine.

HM,Jr: All right.

B: Well, that's fine, I'll be there at ten.

HM,Jr: Thank you.

B: Be good.