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Prepared by  
Mr. Zucker  
Division of  
Research and Statistics

RTMENT

ICATION

01

DATE September 1, 1936

TO Secretary Morgenthau

FROM Mr. Haas *MA*

Joint meeting of the Securities Exchange  
Commission and Treasury Department Staffs  
held September 1, 1936.

Subject: Capital gains study.

Present: Chairman James M. Landis of the Securities Exchange Commission,  
Herman Oliphant, George C. Haas, A. S. McLeod, L. H. Seltzer,  
and J. S. Zucker, of the Treasury Department.

This meeting was held for the purpose of surveying the separate fields of study which the Securities Exchange Commission and the Treasury Department can profitably undertake in furthering an analysis of the problem of the treatment of capital gains and losses under the revenue laws. The study is to be approached from the standpoints of (a) effects on the security markets, (b) protecting the revenue, (c) eliminating tax avoidances, (d) removal of pressure now said to be retarding capital transactions, and (e) accomplishing equality of treatment among all types of taxpayers.

Mr. Landis presented, in summary form, the fields of analysis, some of which are to be covered by the Treasury Department and the balance by the S. E. C. These are:

(1) Statistical analysis to ascertain whether it is the large capital transaction or a series of small transactions which have the greater influence on market conditions. In this connection a comparison of the deals of the professional trader with that of the investor is to be made. The data should also show whether there is a tendency to prolong unduly the ownership of securities in order to take advantage of the graduated scale now part of the capital gains tax provisions.

(2) Utilizing the findings from the W. P. A. study of tax returns under \$5,000, to throw light on the incidence of capital gains. This should show how many people under \$5,000 engage in capital transactions, the size and volume of the transactions, the duration of the period of ownership, and the benefits, if any, from the present provisions of taxing only a portion of the capital gains and allowing a portion of the capital losses.

Secretary Morgenthau - 2

(3) An analysis of security sales made in December of several prior years in order to ascertain whether there is increased activity by virtue of "selling off" before the close of the year so as to have a beneficial effect in the tax returns for the respective years.

(4) Comprehensive analysis of investment trusts activities, by questionnaire method, now being undertaken by the S. E. C. for other purposes, may yield data which will serve in analyzing the capital gains problem from the standpoint of the investment fields open for new investment, continuing investments, etc., both for corporations and individuals.

(5) A proposed study to be undertaken by the S. E. C., through the questionnaire method, asking appropriate questions which will bring out the alleged economic evils of the capital gains tax, its effect on the security market, its severity of tax load, etc. This study would be on the basis of a friendly attitude by the S. E. C. to obtain material from such people as will supply same so as to put it in a position of rendering some official opposition to the tax if the findings so warrant.

(6) A method of study to be devised which will develop conclusions on the general subject of what uses do investors put the realized gains from capital asset transactions; are these reinvested in similar securities, do they move from stabilized industries to relatively new ones, speculative to safe, etc.?

A seventh point was commented on by Mr. Landis, which relates to the present study being undertaken by Professor Haig of Columbia, involving a digest of answers to fifty questionnaires on capital gains. Mr. Landis stated that a member of his research staff, having gone over the material on a trip to New York, advised that such study will not add anything substantial to the analyses to be undertaken either by the Treasury Department or the S. E. C.

It was pointed out by Mr. Haas that not merely the tax law provisions but also regulations by other Departments and Commissions, the S. E. C. in particular, have affected capital gains transactions. Requirements for reporting security transactions, particularly by officers, margin requirements, etc., are two instances which were considered. The effects of the capital gains provisions in cases involving reorganizations and mergers were also discussed. Further preliminary study on this is to be made, principally by contacting the Section in the Assistant General Counsel's Office, Bureau of Internal Revenue, where such cases are handled.

At the suggestion of Mr. Oliphant, it was agreed that the Treasury Department and the S. E. C. consider the separate studies on the above-outlined subjects that can be most advantageously made by each, and that

Secretary Morgenthau - 3

a second meeting within two or three weeks be called in order to outline finally the branches of study to be undertaken. It was stressed that the Treasury Department is not merely interested in obtaining as high a tax from capital gains sources as possible but rather to attribute to this category of income its just burden and to eliminate such inequities and administrative difficulties as are at present inherent in the tax provisions pertaining thereto.

Tuesday  
September 1, 1936  
3:18 p. m.

HMjr: - Fahey?

John H.

Fahey: Yes

HMjr: Henry Morgenthau -

F: Oh, hello Henry, how are you?

HMjr: Oh, I'm fine.

F: Good, I'm glad to hear it.

HMjr: I've missed you - I haven't seen you in a long time.

F: Well, I've been up here for the last couple of weeks trying to get a little rest -

HMjr: Good

F: - at home. And also I haven't been feeling very well -

HMjr: Oh, I'm --

F: But I'm feeling much better now.

HMjr: Good

F: I've been having some trouble with indigestion and it bothered me a good deal.

HMjr: Well -

F: I think I'm getting out of it all right now.

HMjr: Good for you.

F: Say, what I called you about is this. Now, I happen to be one of the trustees for the Twentieth Century Fund.

HMjr: Yes

F: You may remember that the Twentieth Century Fund a year and a half ago made a study - had a special study made of debts of all kinds in the country. They're continuing that with a study of the problem of Government debts.

HMjr: Yes

F: And appointing a committee to supervise the work - it'll probably be finished the last of the year or the first of next year. And they asked me the other day about some suggestions for members of that committee.

HMjr: Yes

F: I think it's enormously important that a thing of that kind shall not take any chance of going hay-wire or getting out anything that might be embarrassing.

HMjr: Yes

F: Although, obviously, none of us are interested in anything except a scientific analysis of the subjects if they want to make it.

HMjr: Yes

F: Now, I've sent down to the office the names of some of those who have been selected already. -

HMjr: Yes

F: - and asked Loomis to get them over to you.

HMjr: Which he did.

F: They include Emile and Kaulk -

HMjr: Right

F: And some of the rest of them.

HMjr: I got -

F: I said, with reference to it however, that I thought it was very important that that committee should also include one or two men who knew something about the problem of government debt as a whole.

HMjr: Yes

F: And that I didn't think that any of those people on there knew very much about that subject.

HMjr: Yes

F: And they've asked me if I could suggest some names. And I thought I'd like to talk with you about it.

HMjr: I see.

F: And see if you would think it over and if you might give me a name or two and I'd hand it along to them, see?

HMjr: I see. Now, the people who are familiar with Government debts?

F: Well, of course the problem of Government debt as it stands today is something that's breaking new ground.

HMjr: Well, I tell you -

F: The old-fashioned economist wouldn't do at all.

HMjr: Yes - well, this is for the Twentieth Century Fund?

F: That's right.

HMjr: Well -

F: What would you say about Earle Bailie?

HMjr: Fine

F: What about Leonard Ayers?

HMjr: I don't know Leonard Ayers.

F: Well, he's a pretty good man.

HMjr: Well, I don't happen to know him, I mean, - that doesn't mean - I just don't have any opinion.

F: You know George Auld - who was the expert of the Dawes and the Commission?

HMjr: No, I don't.

F: He's with Haskins and Sells in New York.

HMjr: Yes

F: And he's been quite a good subject of Government debt, not only of the whole everywhere

throughout the World for a good many years.

HMjr: No, I just don't happen to know him.

F: And an open minded fellow.

HMjr: Yes

F: Oh, by the way, they probably - I understand they are asking Watson to serve on that committee too,-

HMjr: Oh yes

F: And of course he's friendly.

HMjr: Yes

F: And - - - - -my thought was whether you might think of somebody besides Earle Bailie -

HMjr: Well, I'll ask some of the people around when I see them in the Treasury and see if they have any suggestions.

F: Will you?

HMjr: And then I'll - I'll call up your man Loomis and tell him to get them to you.

F: All right.

HMjr: How's that?

F: Could you do it within a couple of days?

HMjr: I can do it between now and tomorrow noon.

F: That's fine. - that's fine.

HMjr: O. K.

F: And - of course keep it confidential between you and me.

HMjr: Correct -

F: That is - I think it's very important that there should be some people on there -

HMjr: Right

F: - who are broad-minded and fair -

HMjr: Right

F: - and so forth. I think that that will work out in a constructive way. That's my impression about it.

HMjr: That's right.

F: And while it's important to have  
because it might cause embarassment.

HMjr: Yes - well, give me a chance and I'll go at it tomorrow.

F: All right, if that - a day or two doesn't matter.

HMjr: All right

F: And if you'll just give it to - call Loomis and tell him to get it to me and I'll appreciate it.

HMjr: Right - I hope to see you soon.

F: I'll be down sometime after Labor Day.

HMjr: Good for you.

F: Good luck

HMjr: Goodbye

F: Thank you.

# TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 1, 1936.

TO Mrs. Klots

FROM Mr. Gaston



Mr. Bell and I conferred with Mr. Early on the afternoon of August 25th on the subject of the Secretary's letter of May 29th, disapproving the purchase of certain utility bonds for the Endowment Fund of the Red Cross. There was no one else present, but during the conference Mr. Early talked to Mr. McClintock of the Red Cross over the telephone. Early said that Admiral Grayson was greatly wrought up and fearful that circulation of the Secretary's letter would create an unfavorable effect in that it would be interpreted as a statement that the principal of an investment in these particular utility bonds, or any utility bonds, would not be safe in the opinion of the Secretary of the Treasury.

Admiral Grayson, who is at George Harrison's summer home in New England, had given McClintock instructions to circulate the letter to the trustees of the fund, but hoped that the Secretary would withdraw the letter so that would not be necessary. Early suggested that the letter be withdrawn and that a substitute be written which made no reference to these particular securities but would be merely a general statement that the Secretary believed that Red Cross funds, because of their public nature, should be invested only in United States Government direct or guaranteed securities. He said the letter withdrawing the substitute letter, dated May 29th, could be a personal letter addressed to Admiral Grayson and it would not be necessary to circulate that letter.

Both Mr. Bell and I pointed out to Mr. Early that any substitute letter referring to the original letter and withdrawing it would simply stimulate curiosity and rumors as to the contents of the original letter and we were fearful that this would be the case even if the substitute letter made no reference to the original.

I discussed the matter verbally with the Secretary that same evening and he thought there would be no harm whatever in circulating the letter of May 29th, and that it would be a stupid thing for him to withdraw it. The next day, the 26th, Mr. McClintock called on the Secretary in company with Mr. Bell, and I was also called in. The same view as above was expressed to Mr. McClintock and the Secretary gave his decision that he would not withdraw the letter. He also told Mr. McClintock that it was his intention to resign from any official connection with the Red Cross for the reason that the Secretary of the Treasury ought not to be put into the position of having to make decisions as to investment of funds in securities other than Government obligations. This responsibility puts the Secretary of the Treasury in the position of having to say which corporate securities are good investments and which are not, a position which he has no right to occupy.

September 1, 1936

# In The Nation

## New Deal's Ace Among Business Men

By ARTHUR KROCK

The announcement by the American Bankers Association that Jesse H. Jones, chairman of the RFC, is to make his fourth successive appearance at the annual convention of that body in September calls to mind the masterly service Mr. Jones has rendered both to the administration and to business, and the prospect that, New Dealer though he is, he will have a most flattering reception from the bankers. For he is in a position to say to them, "I told you so," and to show them a balance sheet of the largest bank in the world that would receive the admiring okay of any examiner.

Mr. Jones is a business man. He gave Houston, Texas, a skyline, among his other achievements. He is a living witness to the claim that the RFC, most successful of all emergency bureaus, was started by President Hoover and is bipartisan in its make-up. His three previous addresses to the association provide accurate charts to the rise of the country out of the depression, and advice which many who heard him did not take but which has proved wise as well as prophetic.

### Mr. Jones's Qualities

The chairman of the RFC has demonstrated that he is at once a daring and prudent banker on the greatest scale ever known in the world; that he is economical by preference but doesn't practice frugality as a fetish; that he can see ahead; and that he has the ability to put enough conservative drag on New Deal impulsiveness to provide a safeguard for business in general. Although he has always been interested in politics, and by politicians is rated as one of them, he has also shown that he can say "No" to influential and persistent members of Congress as well as to the finance committees of railroads.

These are some of the reasons why the financial and business communities rank Mr. Jones with Joseph P. Kennedy, retired chairman of the SEC, as the best administrators the New Deal has produced. If either was placed in charge of the government's fiscal policy, the President would immediately get praise from citizens who haven't had any to give him for three years. Yet Mr. Kennedy has just written a book endorsing the President and the New Deal ("I'm for Roosevelt") and asserting statistically that the government is "in the black." And Mr. Jones is a right-wing New Dealer, devoted to the cause of the President's re-election. Jones' illustrations support the argument that it is not so much the measures of Washington, as the men enforcing them, which constitute the chief objection of business.

Mr. Jones, like Mr. Kennedy and numerous business men, would do some official decapitating if he could. Also, there are emergency statutes which he would have drastically altered before presentation, if the composition had been entrusted to him; and administrative policies of which he has wholly disapproved. But he is firm in the position that, bad laws, inefficient administrators, policy errors and all, the New Deal has produced recovery and it would be a perilous mistake for the country to supplant the government at this time. This, in all probability, he will tell the bankers as he appears before them for the fourth time, fortified by the rosiest statistics he has ever been able to produce.

The NRA had caused uneasiness among members of the association when, in the Spring of 1933, Mr. Jones made his first appearance. He appealed for a broader attitude toward NRA credits. "Be smart—for once," he said, and his auditors resented it. At the famous "olive-branch" convention of 1934, when Jackson Reynolds presented his old law student, the President, and the criticisms in the 1933 resolutions were blanketed by more conciliatory language, Mr. Jones spoke again on the point of the necessity and wisdom of business and financial co-

operation with government efforts to promote recovery. This time there was no visible resentment. But when the A. B. A. met at New Orleans in 1935, utilities holding companies had generally decided not to register under the new act, the tax-the-prosperous bill was a fresh grievance, and the association voted in as its head a man who advocated the "boycott" of government securities. Mr. Jones repeated his advice and appeal, but in the most hostile atmosphere he—in his official capacity—had ever experienced.

### What Will He Say This Time?

Now it is 1936, and the chairman of the RFC is to meet his banking acquaintances for the fourth time. The government, through him, has importantly helped many of them and their clients. The loans have been made on the best possible bases. As in 1934, when the dove of peace was admitted, political indications are for the President's triumph at the polls. In the light of this it will be unusually interesting to note what Mr. Jones has to say, how it is received, and what is the tenor of the resolutions.

To explain Mr. Jones's standing among business men and bankers, here is the broad record on July 31, 1936, of the RFC, which nearly all its life has been under his domination: Total loans and disbursements—excluding government advances and relief—\$6,184,973,523; repaid, \$4,126,440,026. Loans on cotton, \$454,474,344; repaid, \$375,356,667. To banks and trust companies, \$1,947,360,485; repaid, \$1,700,187,182. To insurance companies, \$53,519,434; repaid, \$34,847,131.

## NEW YORK TIMES

Aug. 31, 1936

**MR. COOLIDGE CAN HELP**

The Republican campaign managers have every reason to present with deep satisfaction the formal announcement of T. J. COOLIDGE of Boston that he will vote for Mr. LANDON this year because he "likes" him and "likes" his ideas of economy. Mr. COOLIDGE was one of the ablest of the conservatives whom the President, from time to time, has induced to assist in the conduct of the Government, and the surprising length of his Washington tenure, under the circumstances of policy, was an asset for the New Deal. There are many influential people in business and finance who were disturbed over his departure, fearing that it meant a burst of fiscal radicalism which, though it did not come, still seems to these uneasy persons to remain a greater possibility with men like Mr. COOLIDGE leaving the fight against it.

His proclaimed intention to support Mr. LANDON is not in the least surprising, having been fully indicated by his resignation. It was then well understood in Washington that Mr. COOLIDGE resigned because he had determined he could not vote for his chief for re-election and would return to his normal political alliance this year. But the actual announcement of his decision should not be his final contribution to the campaign for two reasons: It will not have any particular effect on the nation's decision, standing alone. He is in a position to offer a public program looking to economy and the balancing of the budget. While Mr. COOLIDGE has now ranged himself with the Republican candidate, he is an independent man, and specific recommendations he might choose to make would have great weight and value in forming public opinion behind economy moves, whichever candidate is elected.

Mr. COOLIDGE should give to the public the benefit of his experience and observation. The Republican platform and candidate are vague as to how

they propose to bring revenues and expenditures into line, contenting themselves thus far with accusations and implications. If the former Under-Secretary of the Treasury would outline specific methods, he could be sure of making a real contribution to the campaign. Would he broaden the base of the income tax? What would he do about outstanding commitments in public expenditure, and how would he bring them clearly into the open? It would be immensely valuable for him to go into such details.

Tuesday  
September 1, 1936  
2:20 p. m.

7

HMjr: Hello

Operator: Mr. Krock

HMjr: Thank you.

Operator: Go ahead.

HMjr: Hello

Arthur  
Krock: Hello

HMjr: Henry Morgenthau, Junior

K: Yes, Mr. Secretary

HMjr: Can you hear me?

K: Yes, sir

HMjr: Arthur, I'm calling up about the editorial in  
yesterday's 'Times', - 'Mr. Coolidge Can Help'.

K: Yes

HMjr: - and your article today.

K: Yes

HMjr: I take it, I don't know whether you wrote the one  
yesterday or not but I imagine you did.

K: That's a pretty good guess.

HMjr: And the thing that I can't understand in the  
editorial yesterday is the sentence which reads  
as follows: 'There are many influential people  
in business and finance who are disturbed over his  
departure..' - -referring to Coolidge- '..fearing  
that it meant a burst of fiscal radicalism, which  
though it did not come, still seems to these un-  
easy persons to remain a great possibility'.

K: Well, that - that is a statement of fact.

HMjr: Yes - that's

K: I don't say that there is any sense in it.

HMjr: No, but -

K: - that it's justified.

HMjr: No, but -

K: Because, as you know I have on several times written that you have been a definitely conservative influence down there, which you have.

HMjr: Pardon me?

K: I say, as you know, I have several times written that you have been a definite conservative influence there, which you have. But that doesn't mean that everybody believes it or understands it. I mean -

HMjr: Well -

K: It is a fact, that's all.

HMjr: Well, of course there's also a way of planting the idea in somebody's mind.

K: Well, after all, this was a reflection of something that had taken place, not - not a thought of planting it in anybody's mind.

HMjr: Well, then let's refer to today's article, -

K: Yes

HMjr: - in which you say in let's see, one, two, three - the fourth paragraph. 'If either..' -referring to Mr. Jones or Mr. Kennedy- 'was placed in charge of the Government's fiscal policy,'

K: Yes

HMjr: -'..the President would immediately get praise from citizens who haven't had any to give him for three years'.

K: That's true. I don't say it's just and I don't say that it's well based. It's - it's a mere fact.

HMjr: Well, of course I consider that one of the dirtiest pieces of writing which has been written since I've been in Washington.

- K: Well, now I've talked to Arthur about it -
- HMjr: Yes
- K: And I said, 'Now, this probably will hurt Henry's feelings and I'm sorry, but it is a fact', because when I sat down town, oh, say a week ago, and there were four or five bank presidents there, and the argument was over you. And I told them that you had been to my mind a very great conservative influence in Washington, that you had stopped many a bad thing, and that you had been, I thought, the best administrator the department's had. They don't think so. I do. It isn't my fault that they don't think so, is it?
- HMjr: That they don't think what?
- K: What I just said.
- HMjr: I couldn't understand.
- K: I said I told them that you had stopped many a radical thing, that you were definitely a conservative influence, that I thought you had been the best administrator the Treasury had ever had.
- HMjr: Yes, but you don't - but you don't say it in here.
- K: Oh, I have said that - I wrote that about you some time ago.
- HMjr: No, but the inference is only two/<sup>good</sup>administrators down here and that -
- K: I didn't say that I thought so, I said that there were people who hadn't praised Roosevelt for three years --
- HMjr: Oh, well -
- K: - who would praise him if he did this, but I - that I thought so.
- HMjr: No, the point - the point is that it appears - that they don't stop to analyze - the point - the seed that you're planting in the peoples' mind is one that there are just two people who administered their department well. One is Jones and the other is Kennedy.
- K: I said these were the fellows that down town had

the rating, which is quite true, Henry.

HMjr: Yes, well --

K: That doesn't mean that I believe it.

HMjr: Well, I don't - I read the thing three times and I don't get -

K: Well now, your friend Sulzberger, who is a friend of yours, doesn't agree with you about that at all. I was merely presenting the situation as it exists. And that is not my opinion.

HMjr: Well, of course there isn't any nicer way, if somebody wants to dig a grave for me than to do it that way.

K: But I don't want to and I haven't. On the contrary, I have written about you several times, as you know.

HMjr: Yes

K: And it brought out those other points and will undoubtedly do it again.

HMjr: Well, as I say, it's a very clever ingenious way to start a toboggan for me.

K: You mean that I wanted to?

HMjr: Do I think so?

K: Yes

HMjr: After reading that article!?

K: Yes

HMjr: Yes

K: Oh, for God's sake!

HMjr: Yes, I do!

K: Well, then you're wrong.

HMjr: And I think - and I think it's the policy of the New York Times.

K: No, sir!

HMjr: Well, I certainly do!

K: Well, it isn't now, and you'll find it out. But as long as you feel that way today I don't suppose I can convince you. But it is not!

HMjr: And, as I say, it's a beautiful piece of this inuendo which - which when I was here three or four years ago I didn't recognize, but I do now!

K: Well, you're mistaken, because inuendo means the person who did it had that in mind.

HMjr: Yes

K: And that is not so, as I said.

HMjr: Yes. And, as I say, there's nothing that's been written in months which I consider as much below the belt as that piece of writing!

K: Well, it wasn't so intended and a belt blow isn't below the belt if it isn't aimed for that position.

HMjr: Yes, Well, when are writing all this stuff, this whole column, I mean, and you have to pick out the fiscal agency, and the thought is - well now, get rid of Morgenthau, put in Jones or Kennedy and - this is a swell time, the election is on, get rid of him or it will help elect Roosevelt.

K: Oh, that isn't what I say, that's what they say.

HMjr: Yes, but -

K: I don't think so.

HMjr: Well - then why not say so?

K: What?

HMjr: Then why not say so?

K: Well, I have said so in the past.

HMjr: When?

K: I was writing about something else this time.

HMjr: When? - Have you said so in the last six months?

K: Oh yes, I bet I have.

HMjr: Well, I'd like to ask -

K: All right, all right, now that's a challenge. I'll find something I've written within six months ago.

HMjr: Well, anybody - I mean, certainly nobody in the Treasury here that I have talked to can remember it.

K: All right, then I'll undertake to find it.

HMjr: Yes

K: But that's beside the point about inuendo, because I can only assure you that that was not --

HMjr: And, as far as I am concerned, as far as my administering this thing I'm willing to leave it to the presidents of the four biggest banks in New York who have foreign offices and know how we conduct our business, whether the Treasury is well run now.

K: Henry, the Treasury is very well run.

HMjr: Yes, and I'll leave it to the presidents of the four biggest banks in New York who have offices abroad who are not friends of mine and not friends of the President.

K: They're talking about fis- - not the administration of the Treasury Department. They're talking about fiscal policy in which they include this last tax bill.

HMjr: Yes

K: And since you didn't, so far as they know, oppose it, --

HMjr: I - I know what this thing is. I mean, the only way you can get the tax bill changed - this is the way this thing leads- is get rid of Morgenthau. Because both Kennedy and Jones are on record not favoring the tax bill.

K: Well, they may think that - they may think that, but I don't --

HMjr: But that's the whole - that's the whole thing. Now it's gotten to a point that the New York Times

wants to dig a grave for me because they know as long as I'm here they can't change me on the tax bill.

K: Well, I didn't know that, that's news to me.

HMjr: Well that - that - I mean, it's very - it's a very clever piece of - thing. And when I get through - I called you first because I didn't want you to say that I called Arthur Sulzberger because I happened to know him personally. But God knows he's never done me anything for me in the New York Times! I mean, so - but when I get through I'm going to tell him what I told you, but I didn't want you to -

K: That's very fine of you.

HMjr: Yes

K: Go ahead and tell him anything you think but you won't get him to agree that -

HMjr: Well, I don't care! - I don't care. But, of course it's a great advantage having a newspaper and being able to do those sort of things.

K: Well, if you think that was the intention I can't convince you otherwise. You'll just have to wait. I think you won't think so in the long run.

HMjr: Well, it's - that's the way I feel and I've had a half a day to think it over.

K: Well, I think it's very very frank of you to say so, but you're wrong. I mean there's no such purpose attached to it

HMjr: Yes

K: But if you won't think so today, perhaps you will later on.

HMjr: All right.

K: All right, thank you.

HMjr: Goodbye.

Tuesday  
September 1, 1936  
2:30 p. m.

HMjr: - of the New York Times

Operator: All right

HMjr: Outside - official

Operator: All right - here you are.

HMjr: Hello

Arthur  
Sulzberger: Hello, Henry

HMjr: Hello, Arthur

S: I thought I'd hear from you today.

HMjr: Well, I just got through talking to Arthur Krock.

S: Yes

HMjr: And I'll tell you just what I told him.

S: Yes

HMjr: First, there was the Coolidge editorial yesterday, in which, I said to Arthur Krock, 'I take it that you wrote it', and he said he did.

S: Yes

HMjr: And he said, '...fearing that it, on the departure,' - I mean infers, '...there are many influential people in business and finance who are disturbed over his - Coolidge's- departure..'

S: Yes

HMjr: '...fearing that it meant a burst of fiscal radicalism, which, though it did not come still seems to those uneasy persons to remain a great possibility'.

S: Yes

HMjr: Well, that's a new one to me.

S: Yes

HMjr: And I didn't know that they feared a 'burst of radicalism' while I was here.

S: Yes

HMjr: And the other thing is Krock's editorial today which - the sentence which I drew his attention to is this, in which he says, referring to Kennedy and Jones, 'If either were placed in charge of the Government's fiscal policy the President would immediately get praise from citizens who haven't had any to give him for three years'.

S: Yes

HMjr: And then he goes, down in the next paragraph, 'Mr. Jones, like Mr. Kennedy and numerous business men would do some official decapitating if he could'.

S: Yes

HMjr: Well, as I said to Arthur Krock, if the New York Times wants to dig a grave for me they've done - they've started a beautiful job.

S: Yes, I don't see - I don't agree with you at all. The last thing in the World the New York Times wants to do is to dig a grave for Henry Morgenthau, Junior.

HMjr: Well, I consider it one of the dirtiest pieces of writing that I have read in any newspaper since I've been in the Treasury. - And also the most below the belt.

S: Well, I'm sorry you feel that way. But I don't agree with you in the least. I don't see where it reflects on you in the least.

HMjr: Well, it just - all it's suggesting - that during the campaign that if Mr. Roosevelt wants to get a certain group which Mr. Krock says exists - that the thing to do is to decapitate me, - and then put in either Mr. Kennedy or Mr. Jones as Secretary of the Treasury. It's just as plain as the nose. And then Arthur Krock let the cat out of the bag, he referred to the tax bill. And, as I said to Arthur Krock, 'And I suppose you feel that as long as I'm here you can't get the tax bill changed'.

S: Well, that remains to be seen. Well, you - I don't agree with you about the tax bill.

HMjr: Yes

S: I'd be very sorry to see you leave the Treasury, except -

HMjr: Well -

S: Except when you wanted to -

HMjr: Well, I've been around this town now for three and a half years and I've seen these things started and, as I told Arthur Krock, if he wants to start me on the toboggan he's done it in a very clever, under the belt manner. And -

S: Well, I don't agree with you one - one Henry.

HMjr: Yes, well you wait until you see other newspapers take it up. And his - his saying, well this isn't what he thinks, this is what bankers think -

S: Well, of course it is.

HMjr: Well, I - I know what bankers think and I - I happen to -

S: I'm not saying what bankers think, I'm saying what a certain group of men up here in New York City -

HMjr: Well he said he was down town with some bankers. Now I have referred him to the presidents of the four biggest banks in New York City who have foreign offices, which is the Chase, the National City, the Guaranty, and the Bankers Trust.

S: Yes

HMjr: And I'm perfectly willing to let them say whether I've run the Treasury well or not.

S: Yes, well nobody's questioning that!

HMjr: Oh, of course they are. I mean -

S: No, they're not, Henry!

HMjr: The only people that have run their offices well are Mr. Jones and Mr. Kennedy.

S: Oh, that isn't true!

HMjr: Well, it's right here in the editorial!

S: That isn't true at all!

HMjr: Well, it says so.

S: No, it doesn't!

HMjr: Well, I beg your pardon -

S: You'd better reread it, man.

HMjr: Well, of course it said this is what somebody else said, but anybody --

S: No, no, no! You're getting completely a wrong point.

HMjr: Well, nobody around the Treasury who has read it feels but what it's one of the dirtiest pieces of writing they've seen.

S: Well, I don't - I don't agree with you in the least.

HMjr: And, as I say - I know how these things are started and I know that Krock is very close to both Kennedy and Jones and I know how he works. And I know he's got his favorites. And - I've seen those things happen again and again. But I just wanted to let you know, as Arthur Krock started to say about the Times being friendly, I mean - I've never seen any evidence of it. And - that's the way I feel, and you - you watch and see other papers pick it up. I went all through this thing when I went to Europe when they started a rumor about my succeeding Straus.

S: Yes

HMjr: And I - it came from exactly the same source as this information that Krock has. And if Krock says that the down town people feel that way he doesn't know what he's talking about, because I know how they feel and they've demonstrated it. And I'm perfectly willing to stack up with anybody as an administrator, certainly with Jones and Kennedy.

S: Well, there's no question about that in my mind.

HMjr: Yes

S: The only question that I would raise with you is

that they've never said anything about comparing you with them.

HMjr: Well, after all, in one sentence they talk about -  
'if either were placed in charge of the Government's  
fiscal policy the President - '

S: to a certain group  
of people, I agree with that.

HMjr: Well, if they -

S: I don't say that there is any reason to it.

HMjr: If they were going to be placed it means that Henry  
Morgenthau, Junior has to be decapitated.

S: But, it's a silly thought, there's no question about  
that -

HMjr; No, but -

S: It merely means that these two men hold a certain  
position --

HMjr: Yes

S: - among people who are Anti-Administration,- which  
other persons, no matter whether they are good or  
bad, don't happen to hold.

HMjr: Well -

S: That's the article.

HMjr: It's a clever way to plant a seed to get rid of -

S: No, I think you're entirely -

HMjr: Oh, no - well you - oh, well you -

S:

HMjr: Well, you just watch the thing grow, you just watch  
it. I mean, I - my job doesn't make a - I can  
take care of myself, and I will and have, but  
that thing there, I'll never forget that.

S: Well, I think you're - I think you're very thin-  
skinned on the thing and --

Mjr: Oh no! It isn't a question -

: - I think you're - think-skinned is wrong because that would mean that it had something to do with you. I don't agree that it did.

Mjr: Well, who did it refer to!?

: Not to you!

Mjr: Well, who did it refer to!? - when he said, 'If either were placed in charge of the Government's fiscal policy'? Well, who is in charge of the Government's fiscal policy?

: But that doesn't mean that the Government's fiscal policy isn't being run well now!

Mjr: No, but - they say, 'If either were placed in charge of the Government's fiscal....'

: It means that these two men, Henry, have a particular hold on a certain group - a certain group of men who find nothing good in the Administration except these two men. That's all that article meant.

Mjr: But it says, point blank, 'If either was placed..'

: I know that!

Mjr: Well! And that means in my place! - in my place - that's what it - that's what - and the way, the thing to do isn't for the New York Times to come out and say, 'Let's get rid of Morgenthau so we can get rid of the tax bill...'

: Oh Henry, you're talking through your hat!

Mjr: Well - but this is the way to do it.

: I'm ashamed of you.

Mjr: This is the way to do it.

: Well, you'd better sleep on it.

Mjr: Oh no, I have - I've had a half a day.

: Well, you haven't been sleeping, have you? (Laughs)

Mjr: No, but I - I've had a half a day and I've had a chance to talk it over and I've talked just as -

I've talked stronger to Arthur Krock and --

S: Well, I think you're - I think you're completely cockeyed on it.

HMjr: Well -

S: Aside from that I find you all right.

HMjr: Well, I'm sorry I can't say as much for the New York Times.

S: (Laughs)

HMjr: Yes - all right, Arthur.

S: All right, Henry.

HMjr: Goodbye

QUARTERLY FINANCING, SEPTEMBER 15, 1936

Aug. 31

Memo to Secretary from Dr. Haas, subject, "Federal Reserve Bank and Member Bank Holdings of Government Securities 1933-1936", summarizing changes between June 30, 1933 and June 30, 1936. (See pages 20 F-J)

Sept. 1

Memo from Dr. Haas, entitled "Basic Data Concerning Possible Offerings of Government Securities To Be Dated September 15, 1936". (See pages 21 A-B)

Sept. 1

Meeting at Secretary's home in the evening. Bell reported cash position. Burgess' opinion was because of present cheap bond market, Treasury could sell longest-maturity at cheapest rate. Viner could see no excuse for purchase of maturity in excess of 10 years. Burgess thought 400 million dollars new cash in September would be about right. Burgess also thought short bond not as sound finance as a longer one. He pointed out that Metropolitan and Prudential Insurance Companies have 150 million dollars to invest. Taylor liked a 10 1/2 year 2 1/2% bond. (See pages 22 A-H)

Sept. 2

Memo from Haas to Secretary, "Conservative Estimates of Premiums On Possible Offerings of Bonds in September Financing". (See page 23)

Sept. 2

Memo on various notes and bonds and closing prices and yields. (See page 24)

Sept. 2

Estimate of Cash Position for September - December 1936 on which financing was based. (See pages 25-25 B)

Sept. 3

Meeting of Executive Committee of Federal Reserve Open Market Committee in Secretary's office. Bell explained fiscal position of Treasury. General comment on Budget. (See pages 25 C-M)

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## Sept. 3 (Continued)

Summation made public yesterday. Mr. Fleming, Pres. Federal Reserve Bank of Cleveland, thought now was good time to get new money; suggested 750 million dollars in September; suggested 20-25 year  $2\frac{3}{4}\%$  bond. (See pages 26-40, 49)

Mr. Broderick, Federal Reserve Bank, thought it desirable to ask for no new money and suggested possibility of refunding both September and December maturities.

Mr. Ransom, Federal Reserve Bank, thought 400 million dollars cash about limit of what could be done now.

Mr. McKinney, Federal Reserve Bank Dallas, thought well of 500 million dollars new money.

Mr. Szymczak preferred no new money and if any, not more than 400 million dollars. Suggested 1956-1961  $2\frac{3}{4}\%$  bond.

Mr. Thomas liked 500 million dollars new money. Preferred long term  $2\frac{3}{4}\%$  bond.

Haas thinks for safety  $2\frac{1}{2}\%$  bond with 1947-1950 maturity.

Viner wanted no political dressing; favored  $2\frac{3}{4}\%$  with as long maturity as is saleable.

Upham's preference was for  $2\frac{3}{4}\%$  20-25 year maturity.

HMJr. said he would tomorrow announce amount of September issue but not maturity or rate. Burgess agreed. He is not yet sold on long term bond.

Treasury group remained after others departed. After taking a vote, HMJr., Taylor and Haas voted for 500 million dollars. Bell, Viner and Upham voted for 400 million dollars. HMJr. decided to ask for 400 million dollars.

Sept. 3

HMJr.'s own memo for use at Press Conference. (See page 50)

Sept. 3

Press Conference (See pages 51-51 B)

Sept. 3

Ticker comment on announcement. (See pages 52-52 I)

Sept. 3

Mr. Levy of Solomon Brothers and Hutzler gave his opinion Treasury could sell a 58-61. Very bullish. (See page 53)

Sept. 3

HMJr's telephone conversation with Dr. Burgess, HMJr. told him Mr. Levy's opinion. (See pages 54-54 D)

Sept. 3

Meeting at Secretary's home in evening with Mr. Mills and Mr. Tripp of Discount Corporation. In their opinion 2 1/2% 47-50 bond would be great success. Favored 2 3/4% bond with maturity as long as market would permit. Delighted Treasury was asking for new money. (See page 55)

Sept. 4

Meeting in Secretary's office of Treasury group to discuss kind of bond to be issued. Telephone conversation with Burgess while group was present. Seltzer does not like 2-7/8 long term bond; prefers 2 3/4. Murphy and Haas agreed with Seltzer. Harris liked 2 3/4% 14 year. Lochhead's opinion was if we were going to have bond issue he favored long term 2 3/4%. (See pages 80-80 I)

Meeting adjourned; nothing definite decided.

Sept. 4

Meeting in Secretary's office with Mr. Davidson, Pres. Central Hanover, accompanied by Mr. Hollingsworth, in charge of their bond department. (See pages 81-81 A)

Mr. Davidson praised HMJr's asking for additional cash. Recommended 20-25 year 2 3/4% bond. Made good impression on HMJr.

Sept. 4

Treasury group met with Secretary. He talked to Burgess on phone. No one likes 2-7/8. Rentschler likes 11 year 2 1/2%. Bennett, of Immigrant Industrial, wouldn't take any bonds. Discount Corporation thinks 2 3/4 is right. Market unanimous for 2 3/4%, with range from 54-57 to 60-65. His opinion was 20-23 year; keep maturity date under 60. (See pages 82-82 K)

Sept. 4

Bell's memo on his suggestions and preference for September 15 financing. (See pages 83-83 A)

Sept. 4

Telephone conversation with Burgess. Burgess not worried about the market's reaction to the financing. (See pages 84-84 O)

Sept. 4

HMJr's memo of telegram to President suggesting better he not go to Dern funeral because of financing and other important matters. (See page 85)

Sept. 4

Bell's memo on meeting at Secretary's home with Gordon Rentschler and his bond man Mr. Kane and Mr. Bell. Rentschler and Kane both agreed 2 1/2% 11-14 year bond or a 2 3/4% 20-23 year bond would be received well by the market, Rentschler favored 2 1/2% shorter term bond; 2 3/4% would sell at premium as high as 1 1/2%. Kane thought 2 3/4% more desirable from Treasury standpoint. (See pages 86-86 B)

Sept. 4

HMJr's own memo on meeting at his home with Mr. Rentschler and Mr. Kane and general reaction of persons whom he has consulted. (See page 87)

Sept. 5

HMJr's phone conversation with Burgess. Burgess' advice still 56-59. (See pages 106-106 G)

Sept. 5

Just before Press Conference HMJr. thought of successive lengthening of Government bonds, since a year ago. (See page 107)

Transcript of Press Conference. (See pages 107 A-D)

Press announcement of terms of financing 9:07 a.m. (See pages 107 N, 127 A)

Sept. 8

Telephone conversation with Burgess. New issue priced at 101 1/4. Burgess says new issue bound to be a success. (See pages 107 F-M)

-5-

Sept. 8

Telephone conversation 10:55 a.m. with Burgess. First information: no question about success of offering. (See pages 127 E-F)

Sept. 8

Telephone conversation with Burgess - 332 million dollars subscribed. (See pages 127 G-I)

Sept. 8

2 p.m. telephone conversation with Burgess; subscriptions "over the top". Oversubscribed 842 million dollars at 2 o'clock. (See pages 127 J-K)

Sept. 8

Press Release books closed at close of business for offering of 2 1/2% 1956-1959 bonds. (See page 144)

Books will close Thursday for receipt of subscriptions to Treasury notes Series D-1936 maturing September 15, 1936. (See page 144)

Sept. 10

Press Releases (Press Conference) issue oversubscribed 13 times.

Sept. 10

Telephone conversation with Burgess - HMJr. inquired why Guaranty Trust took only 10 million dollars and Irving Trust none. (See Book XXXII, pages 129-132)

Sept. 11

Telephone conversation with Burgess; on allotment of subscriptions. (See Book XXXII, pages 137-140)

Press Release - cash subscriptions totaled \$5,134,000,000. Allotments 7%. (See Book XXXII, page 141)

Sept. 15

Press Release - final subscription and allotment figures. (See Book XXXII, page 225)



DATE August 31, 1936

Secretary Morgenthau

Mr. Haas *[Handwritten initials]*

Subject: Federal Reserve Bank and Member Bank Holdings of Government Securities, 1933-1936

The attached tables summarize the changes in the holdings of Government securities by Federal reserve and member banks at six-month intervals between June 30, 1933 and June 30, 1936. The figures for the latter date have not yet been released to the public by the Federal Reserve Board. The more significant features revealed by the tables may be summarized as follows:

1. In the three years ended June 30, 1936, the member banks of the Federal Reserve System increased their holdings of Government securities by \$4,835 millions. The increase in note holdings amounted to \$3,112 millions; the increase in bond holdings to \$1,570 millions; and the increase in holdings of certificates and bills to \$153 millions.

The preponderant increase in short-term securities is in part superficial because the Liberty bonds subsequently called bulked large in bank portfolios and were regarded as short-term investments by the banks, though classified, of course, as bonds. A further factor in restricting the apparent increase in the bond holdings of member banks was the retirement last July and August of the Consols and Panama Canal bonds which, by itself, reduced the bond holdings of banks by approximately \$675 millions.

2. The largest part of the net increase in member bank holdings of bonds during the three-year period took place during the six months ended June 30, 1936, an increase of \$1,390 millions, or more than the aggregate net increase in their total holdings of Government securities. Note holdings declined by \$242 millions and bill holdings increased by \$74 millions during these six months.

The fact that the increase in bond holdings accounted for more than the entire increase in the banks' holdings of Government obligations does not represent as sharp a change in the investment policies of the banks as the figures themselves might indicate, because the last six months constituted the first period in which the popularity of bonds as contrasted with bills and notes was not obscured by the refunding and redemption operations cited above. Nevertheless, the figures for the last six months do indicate an accentuation of the preference for bonds.

Secretary Morgenthau - 8/31/36 - 2

3. During the three-year period, the percentage of the total direct public debt, exclusive of special issues to Government trust funds and corporations and of adjusted service bonds, held by member banks increased from 31.5 percent to 37.3 percent. The combined Federal reserve bank and member bank holdings increased from 40.7 percent to 45.0 percent. Comparable figures for nonmember banks are not yet available, but Government security holdings of insured non-member commercial banks aggregated about one-tenth the amount of member bank holdings on December 31, 1935.

4. Of the aggregate principal amount of \$14,152 millions of direct Government securities held in the Federal Reserve System, \$8,541 millions, or about 60.4 percent, consists of notes and bills. Of the holdings of member banks alone, \$6,427 millions, or 54.8 percent, consists of notes and bills.

5. The increasing importance of Government obligations in the earning assets of the banking system is indicated by the fact that direct and guaranteed Government securities have increased from 27.8 percent to 42.4 percent of the total loans and investments of all member banks between June 30, 1933 and June 30, 1936. They constituted 29.4 percent of total member bank assets on June 30, 1936 as compared with 20.8 percent on June 30, 1933.

Attachments

Table I

Outstanding Interest-Bearing Public Debt and Amounts Held by  
Federal Reserve Banks and by Member Banks, 1933-1936\*

Category	6/30/33	12/30/33	6/30/34	12/31/34	6/30/35	12/31/35	6/30/36
<b>A. Total Amount Outstanding</b> (in millions of dollars)							
Notes	14,223	15,569	16,510	16,245	14,936	14,672	17,684
	4,548	4,880	6,653	9,187	10,023	11,792	11,381
	2,108	1,628	1,517	—	—	—	—
	<u>954</u>	<u>1,003</u>	<u>1,404</u>	<u>1,954</u>	<u>2,053</u>	<u>2,404</u>	<u>2,354</u>
	21,833	23,080	26,084	27,386	27,012	28,868	31,419
<b>B. Held by Federal Reserve Banks</b> (in millions of dollars)							
Notes	442	443	468	396	317	216	316
	709	1,053	1,222	1,507	1,511	1,642	1,494
	622	425	265	—	—	—	—
	<u>225</u>	<u>516</u>	<u>477</u>	<u>527</u>	<u>605</u>	<u>573</u>	<u>620</u>
	1,998	2,437	2,432	2,430	2,433	2,431	2,430
<b>C. Held by Member Banks</b> (in millions of dollars)							
Notes	3,725	4,411	4,838	4,659	4,458	3,905	5,295
	2,049	1,916	2,871	4,217 <sup>1/2</sup>	4,314	5,403	5,161
	559	485	637	—	—	—	—
	<u>554</u>	<u>442</u>	<u>791</u>	<u>1,030</u>	<u>1,099</u>	<u>1,192</u>	<u>1,266</u>
	6,887	7,254	9,137	9,906	9,871	10,500	11,722
<b>D. Held in Federal Reserve System</b> (in millions of dollars)							
Notes	4,167	4,854	5,306	5,055	4,775	4,121	5,611
	2,758	2,969	4,093	5,724	5,825	7,045	6,655
	1,181	910	902	—	—	—	—
	<u>779</u>	<u>958</u>	<u>1,268</u>	<u>1,557</u>	<u>1,704</u>	<u>1,765</u>	<u>1,886</u>
	8,885	9,691	11,569	12,336	12,304	12,931	14,152

U. S. Treasury Department, Division of Research and Statistics.

Exclusive of special issues to governmental trust funds and corporations and of United States Service Bonds.

\* \$100,000 of certificates included with Treasury notes.

Table II

Percentage of Interest-Bearing Public Debt held by Federal Reserve Banks and by Member Banks\*

Category	6/30/33	12/30/33	6/30/34	12/31/34	6/30/35	12/31/35	6/30/36
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A. Percentage held by Federal Reserve Banks

	3.1	2.8	2.8	2.4	2.1	1.5	1.8
States	15.6	21.6	18.4	16.4	15.1	13.9	13.1
	29.5	26.1	17.5	—	—	—	—
	<u>23.6</u>	<u>51.4</u>	<u>34.0</u>	<u>27.0</u>	<u>29.5</u>	<u>23.8</u>	<u>26.3</u>
	9.2	10.6	9.3	8.9	9.0	8.4	7.7

B. Percentage held by Member Banks

	26.2	28.3	29.3	28.7	29.9	26.6	29.9
States	45.0	39.3	43.1	45.9	43.0	45.8	45.4
	26.5	29.8	42.0	—	—	—	—
	<u>58.1</u>	<u>44.1</u>	<u>56.3</u>	<u>52.7</u>	<u>53.5</u>	<u>49.6</u>	<u>53.8</u>
	31.5	31.8	35.0	36.2	36.5	36.4	37.3

C. Percentage held in Federal Reserve System

	29.3	31.2	32.1	31.1	32.0	28.1	31.7
States	60.6	60.8	61.5	62.3	58.1	59.7	58.5
	56.0	55.9	59.5	—	—	—	—
	<u>81.7</u>	<u>95.5</u>	<u>90.3</u>	<u>79.7</u>	<u>83.0</u>	<u>73.4</u>	<u>80.1</u>
	40.7	42.0	44.3	45.0	45.5	44.8	45.0

U.S. Department, Division of Research and Statistics.

Exclusive of special issues to governmental trust funds and corporations and of United States Service Bonds.

Relation between Member Bank Holdings of Direct and Guaranteed Government Securities  
and their Total Assets and Total Loans and Investments  
(in millions of dollars)

	: 6/30/33 :	: 12/30/33 :	: 6/30/34 :	: 12/31/34 :	: 6/30/35 :	: 12/31/35 :	: 6/30/36 :
Total assets	33,047	33,876	37,385	40,077	40,725	44,122	46,534
Total loans and investments	24,786	25,220	27,175	28,150	28,785	29,985	32,259
U.S. direct obligations	6,887	7,254	9,137	9,906	9,871	10,500	11,722
Securities fully or partially guaranteed by the U.S.	—	150*	508	1,100	1,565	1,768	1,950
Total U.S. securities	<u>6,887</u>	<u>7,404</u>	<u>9,645</u>	<u>11,006</u>	<u>11,436</u>	<u>12,268</u>	<u>13,672</u>
Percentage total U.S. securities of total assets	20.8	21.9	25.8	27.5	28.1	27.8	29.4
Percentage total U.S. securities of loans and investments	27.8	29.4	35.5	39.1	39.7	40.9	42.4

Treasury Department, Division of Research and Statistics.

\* Estimated.



Basic Data Concerning Possible Offerings of Government Securities  
To Be Dated September 15, 1936

1. Five-year 1-3/8% note, due September 15, 1941

<u>Comparable issues</u>		<u>Yield</u>
1-1/2's	3/15/41	1.15%
1-3/8's	6/15/41	1.15

Extrapolated yield for an issue due 9/15/41 - 1.15%

A 1-3/8% note due 9/15/41 would sell:

at 101-3/32 to yield	1.15%
100-27/32 " "	1.20 (conservative expectation)
100-19/32 " "	1.25

2. Ten-thirteen year 2-1/2% bond, due September 15, 1949, optional after September 15, 1946

<u>Comparable issues</u>		<u>Yield</u>
2-3/4's	9/15/45-47	2.23%
3-1/8's	6/15/46-49	2.33
2-3/4's	3/15/48-51	2.47

A 2-1/2% bond due September 15, 1949, optional after September 15, 1946, would sell:

at 101-11/32 to yield	2.35%
100-28/32 " "	2.40 (conservative expectation)
100-14/32 " "	2.45

3. Twelve-fifteen year 2-5/8% bond, due September 15, 1951, optional after September 15, 1948

<u>Comparable issues</u>		<u>Yield</u>
3-1/8's	6/15/46-49	2.33%
2-3/4's	3/15/48-51	2.47
3-1/8's	12/15/49-52	2.53
2-3/4's	6/15/51-54	2.58

A 2-5/8% bond due September 15, 1951, optional after September 15, 1948, would sell:

at 101-9/32	to yield	2.50%	
100-25/32	" "	2.55	(conservative expectation)
100-8/32	" "	2.60	

Note: All prices and yields quoted above are as of the close of the market on August 31.

The present premium on the maturing issue of Treasury notes exceeds the remaining amount of interest to accrue on such notes by about 26/32 points.

Treasury Department, Division of Research and Statistics.  
September 1, 1936.

September 1, 1936.

A group met at supper at Secretary Morgenthau's home at 7:30 and following supper there was a discussion of September financing. Those present were:

Henry Morgenthau, Jr., Secretary of the Treasury,  
Mr. W. Randolph Burgess, Vice President of the Federal  
Reserve of New York,  
Wayne C. Taylor, Assistant Secretary of the Treasury,  
D. W. Bell, Assistant to the Secretary,  
George C. Haas, Director of the Division of Research  
and Statistics,  
Jacob Viner,  
C. B. Upham, Assistant to the Secretary.

Mr. Bell reported on the cash position of the Treasury. He stated that we would go into September with a cash balance of \$1 billion 310 million. Without any new cash we would go into October with a balance of \$1 billion 129 million. If we had an increase of \$100 million bills in October, we would go into November with a balance of \$874 million. And if during November we added \$200 million bills, we would go into December with a balance of \$780 million. A plan for December then would be \$800 million financing, \$400 million of which would pay off Treasury/accumulations, leaving \$400 million net cash and a balance going into January of \$1 billion 40 million.

Mr. Burgess and Mr. Viner both expressed opposition to reduction of the cash balance to too low a figure. Mr. Burgess was against an increase in the short dated debt, particularly of maturity within a year.

Mr. Bell said that he would like to see a maturity in June

when we have revenues of \$900 million, and thought there might be some June bills floated in December.

Mr. Burgess asked what assumption about business recovery was the basis for the revenue figures.

Mr. Haas replied that the estimate was a conservative figure based on 1936 estimates, under which it was assumed that the FRB index would be under 100, whereas as a matter of fact it will probably be 102 or better. The revenue in June 1936 was just under \$500 million.

Mr. Morgenthau asked if a request for \$500 million new money in September, following so closely upon the announcement that we would seek only \$750 million during the entire fiscal year, would not sound "phoney".

Mr. Bell was of the opinion that it could be explained.

Mr. Morgenthau was afraid people would not believe the explanation. It was pointed out that the bulk of the fiscal year revenue comes in in the second half thereof.

In response to Mr. Morgenthau's inquiry, Mr. Bell stated that without October and November bills we would have about \$400 million cash on December 15.

Mr. Morgenthau referred to \$140 million additional which Mr. Bell has "in his back pocket". This \$140 million is in gold appropriated for national bank note retirement, but probably not more than \$40 million of it will be needed for that purpose during the rest of the calendar year.

Mr. Burgess pointed out that there are maturities in February, April and September, 1937, and that it would be normal to refund the February maturities in December, which would give a refunding operation of \$1 billion.

Mr. Viner expressed the view that there should be a bond issue in December.

Mr. Burgess replied that when there is a big financing it must be partly in notes, but that the September refunding with \$400 million new money can be taken care of by a bond only. It gets the short dated note out of the way, whereas if we wait until December for new money a part of it will have to be raised by a short note. Moreover, there is no good open space now for a five year note.

Mr. Morgenthau asked what a five year note would sell for now, and Mr. Burgess replied  $1\frac{1}{4}$ . He agreed that that might be a little tight. He added that he would certainly not sell a note in September.

Mr. Morgenthau said that he had his mouth set for a note.

Mr. Burgess pointed out that we now have a cheap bond market and that we could sell the longest maturity at the cheapest rate. He suggested a 2-3/4 per cent bond with a maturity of 56-61. This, he said, would go a long way to meet the criticism of H. Parker Willis and others about the size of the short dated debt. Such a bond should appeal to investors. It would be sound financing.

Mr. Viner said that investors would buy that bond but he is unable to see why they should. There is no excuse in his opinion for purchase of a maturity in excess of ten years.

Mr. Haas expressed the opinion that the maturities beyond 1955 are likely to have a pretty dead market.

Mr. Morgenthau suggested the possibility of merely rolling over the September maturity and Mr. Burgess commented that in

that event the obvious thing would be to offer the market \$500 million of the most recent bond issue and offer it at a premium. He thought it would sell at about 101 $\frac{1}{2}$ .

Mr. Morgenthau stressed the necessity for keeping in mind at this time the viewpoint of Congressman Lemke and Father Coughlin, and not to be too generous to the bankers and bond dealers.

Mr. Burgess was of the opinion that not to take cash now would be obviously artificial and would look like a political gesture. He urged that the only consideration should be sound financing, and stated that up to now no one could accuse the Treasury of politics.

Mr. Viner said that it was logical to refund a substantial part of the short term debt either in September or December. He would do a minimum for clean financing in September, having in mind not to let the cash balance get too low.

Mr. Burgess thought \$400 million new cash in September would be about right. He thought \$250 million would be too small and cause allotment difficulties. At present market rates he thought it desirable to get some of the short term debt into bonds.

Mr. Morgenthau was of the opinion that we cannot lose sight of the whole political arena. He stated that whatever we do we will be accused of politics. In the face of the Lemke-Coughlin school of thought he thinks it bad to give the market more than half a point.

Mr. Viner suggested that a wholly new issue would avoid that difficulty.

Mr. Burgess was for a new issue.

Mr. Morgenthau said he thought it would be a mistake to take an existing bond with a visible point profit, and suggested that the profit on a new issue would not be visible.

Mr. Taylor said that he thought we could eliminate a cash pay-off in September as a possibility.

Mr. Burgess and Mr. Viner agreed that cash pay-off was absurd and too obvious.

Mr. Taylor said then the alternatives were a straight refunding or some new cash. The test is, do we want new money? and that should be decided first.

Mr. Morgenthau said that his mind had been pretty well made up the night before that he would ask for no new money, but that it had just come to his attention - and Mr. Bell's - that the windfall tax had been shifted 90 days to December, which, together with some changes in HOLC finances, reduced cash between now and December.

Mr. Taylor explained that the windfall tax shift had resulted from the fact that the Bureau of Internal Revenue is not yet ready to handle those transactions.

Mr. Morgenthau and Mr. Burgess thought that by using the \$100 million gold allocated for national bank note redemption and by selling November bills for June maturity, we could scrape through without new money in September.

Mr. Burgess pointed out that this would leave a big problem for December.

Mr. Bell indicated that he had hoped to take care of part of the February maturity and part of the April maturity with cash.

Mr. Morgenthau returned to his suggested possibility of

a simple refund in September.

In that event, Mr. Burgess said, it should be a bond. Notes are already piled up and a note would increase the short term debt. He would prefer a long 2-3/4 or an additional amount of 51-54s. It was pointed out that 1941 maturities are already \$2 billion 100 million. This was in connection with Mr. Morgenthau's remark that a 5 year 1 1/2 note looked pretty nice to him.

Mr. Burgess was afraid of note declines on market breaks.

Mr. Bell said that a simple refunding in September did not worry him. He was of the opinion that a bond issue might do the market some good.

Mr. Burgess expressed the opinion that we may be reaching a high artificial level that will crack if we get no bonds now. He urged that the market be not starved, and said he would rather have the market go down now than in December.

Mr. Morgenthau asked what Lemke would say if we go after new money.

Mr. Burgess thought that he and everyone else would say that we are smart to take advantage of a market when we have a good one.

Mr. Taylor said he would suggest "a funny one," and advanced the idea of a 10 1/2 year 2 1/2 per cent bond.

Mr. Burgess said that a 47-50 bond could be floated at 2 1/2, which is the lowest rate since the war, but that he would not recommend it.

Mr. Morgenthau said he was a little bit afraid of the 2-3/4 and referred to the fact that the Treasury has been nursing the 2-7/8 for two years and has accumulated 10 per cent of the issue.

Mr. Burgess stated again that he was in favor of the 56-61.

Mr. Taylor and Mr. Haas said they were afraid of so long a maturity.

Mr. Bell and Mr. Burgess said it was always a sign of weakness to lower a maturity at the same rate.

It was pointed out that Postal Savings has \$75 million cash to invest, and the FDIC \$20 million.

Mr. Burgess said that two insurance companies in New York have \$150 million to invest - the Metropolitan and the New York -.

The Discount Corporation favors a long 2-3/4. The insurance companies will like it. The Prudential bought \$100 million of the last issue.

Mr. Taylor renewed his idea of an 11 year bond as worth thinking about.

Mr. Burgess said no chance would be taken on either but that he thinks the shorter bond not such sound finance. He stated that the Treasury must spread its debt out.

Mr. Morgenthau asked what the market will think.

And Mr. Burgess replied that they want a bond, not a note and that if there is new money the market is unanimous for a 2-3/4 of long maturity.

Mr. Morgenthau said that he was impressed with one consideration - that when the market looks too good it may get hollow.

Mr. Burgess said that if the market is not fed now it may rush up artificially and become vulnerable. Dealers have on their shelves about \$190 million, which includes a good

many of the September maturities.

Mr. Burgess said that Childs favor a 2-3/4 with a 60-65 maturity.

Mr. Morgenthau referred to the fact that the last time there was sentiment for a 3 per cent 20 year bond.

Mr. Haas commented that the banks and brokers want coupon more than maturity.

Mr. Burgess said that \$900 million financing in September would be a cinch.

Mr. Bell said that a 56-61 bond ought to sell at 101, which would provide plenty of gravy.

Mr. Morgenthau asked which sounds better, a 2 1/2% rate or a 56 maturity?

Mr. Haas was of the opinion that the student of finance would favor a 56 maturity but that the mass of the people would likely favor the 2 1/2 rate.

Mr. Burgess was of the opinion that if no cash is asked in September the operation would be branded as political in color.

There was some discussion of the mechanics of the September financing and Mr. Bell felt that by working Saturday, Sunday and Labor Day, Monday, it could be taken care of.

Mr. Burgess arranged by telephone for officials of the Discount Corporation to come down for supper with Mr. Morgenthau tomorrow night and plans were made for certain other New York bankers to come down for discussions on Thursday and Friday.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 2, 1956

TO Secretary Morgenthau

FROM Mr. Haas 

SUBJECT: Conservative estimates of premiums on possible offerings of bonds in September financing.

1. Ten-thirteen year 2-1/2 percent bond due September 15, 1949, callable after September 15, 1946. Estimated market price 100-28/32 to yield 2.40 percent.
2. Twenty-twenty-five year 2-3/4 percent bond due September 15, 1961, callable after September 15, 1956. Estimated market price 100-25/32 to yield 2.70 percent.

Note: Estimated price and yield of this issue subject to considerably more error than on No. 1 because of length of maturity and existence of only one outstanding comparable issue on which to base judgment.

Young  
China

Lewis, 24  
A Q

September 2, 1936

Listed below are various maturities of notes and bonds, also their current estimated market basis and the premium they show above this market basis.

<u>Suggested Coupon</u>	<u>Maturity</u>	<u>Estimated Market Basis*</u>	<u>Probable Premium</u>
<u>N O T E S</u>			
1-3/8% (5 yrs.)	9/15/41	1.19	7/8 point 4
<u>B O N D S</u>			
2-1/2% (10 1/2 yrs.)	3/15/47	2.38	1 pt. 3/32nds
2-1/2% (11 yrs.)	9/15/47	2.41	27/32nds
2-5/8% (14 yrs.)	9/15/50	2.55	7/8 point
2-3/4% (20 yrs.)	9/15/56	2.68	1 pt. 2/32nds
2-3/4% (21 yrs.)	9/15/57	2.70	25/32nds

\* Market basis estimated from yields on bid price of outstanding issues close of business September 2, 1936.

## Closing Bid Prices and Yields September 2, 1936

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Treasury Notes

	<u>Bid Price</u>	<u>Yield</u>
2-5/8s 2/ 1/38	103.14	.18
3s 3/15/38	104.7	.24
2-7/8s 6/15/38	104.18	.30
2-1/2s 9/15/38	104.4	.46
1-1/2s 3/15/39	101.24	.80
2-1/8s 6/15/39	103.14	.87
1-2/8s 12/15/39	101.14	.93
1-5/8s 3/15/40	102.3	1.02
1-1/2s 6/15/40	101.20	1.06
1-1/2s 12/15/40	101.17	1.13
1-1/2s 3/15/41	101.16	1.16
1-2/8s 6/15/41	101.3	1.14

Treasury Bonds

3-3/8s 6/15/40-43	108.12	1.11
3-3/8s 3/15/41-43	109.7	1.28
3-1/4s 8/1/41	109.6	1.31
3-3/8s 6/15/43-47	109.9	1.91
3-1/4s 10/15/43-45	108.21	1.94
3-1/4s 4/15/44-46	108.12	2.06
4s 12/15/44-54	114.10	2.11
2-3/4s 9/15/45-47	104.14	2.21
3-3/4s 3/15/46-56	112.16	2.28
3s 6/15/46-48	106.3	2.30
3-1/8s 6/15/46-49	107.2	2.32
4-1/4s 10/15/47-52	119.9	2.28
2-3/4s 3/15/48-51	102.28	2.46
3-1/8s 12/15/49-52	106.22	2.53
2-3/4s 6/15/51-54	102.3	2.58
3s 9/15/51-55	105.14	2.56
2-7/8s 3/15/55-60	103.15	2.64

September 8, 1936

We based our financing on this statement.

ESTIMATE OF CASH POSITION  
September - December, 1936

(In millions of dollars)

	1936 Sept.	Oct.	Nov.	Dec.	Total
Balances at beginning of periods ..	1,310	1,529	1,174	880	1,310
Receipts:					
General revenues .....	470	225	225	500	1,420
Social Security taxes .....	14	15	16	17	62
Sales of Treasury notes & bonds..	400	-	-	800	1,200
Sales of Treasury bills (new) ...	-	-	-	-	-
Sales of U. S. Savings bonds ....	25	25	25	25	100
Total receipts .....	2,219	1,794	1,440	2,222	4,092
Expenditures:					
General .....	250	260	260	250	1,020
Emergency .....	230	240	250	250	970
Interest on public debt .....	150	80	10	130	370
Redemption of Veterans' bonds ...	35	20	15	25	95
Redemption of old debt .....	15	10	10	415	450
Special transactions .....	10	10	15	10	45
Total expenditures .....	690	620	560	1,080	2,950
Balances at end of periods .....	1,529	1,174	880	1,142	1,142
Refunding operations:					
Treasury bills:					
Regular .....	250	200	200	250	900
Special .....	-	-	-	400	400
Treasury notes .....	514	-	-	358	872
Total refunding .....	764	200	200	1,008	2,172

sub

September 2, 1936.

The Executive Committee of the Federal Reserve Open Market Committee met with the Secretary of the Treasury at 11 A. M. to discuss September financing.

Those present were:

Henry Morgenthau, Jr., Secretary of the Treasury,  
Wayne C. Taylor, Assistant Secretary of the Treasury,  
D. W. Bell, Assistant to the Secretary.

George C. Haas, Director of Research and Statistics,  
Treasury Department,

Ronald Ransom, Vice Chairman, Federal Reserve Board,  
Joseph A. Broderick, Member of the Federal Reserve  
Board,

M. S. Szymczak, Member of the Federal Reserve Board,  
Woodlief Thomas, Assistant Director Research and  
Statistics, Federal Reserve Board,

M. J. Fleming, President, Federal Reserve Bank of  
Cleveland,

B. A. McKinney, President, Federal Reserve Bank of  
Dallas,

W. Randolph Burgess, Vice President, Federal Reserve  
Bank of New York.

Jacob Viner, Consultant to the Secretary,

C. B. Upham, Assistant to the Secretary.

Mr. Bell explained the fiscal position of the Treasury by stating that we will have a working balance on the first of September of about \$1,300,000,000. Without any new financing we will go into October with a balance of \$1,129,000,000; into November with \$774,000,000; into December with \$580,000,000;

and have \$480,000,000 on December 15th. We will need \$300 to \$400 million new money through to December 15th to keep a steady balance of around \$600 million.

At Mr. Morgenthau's suggestion Mr. Bell summarized the Revised Budget Summation, which was given out yesterday. It was released, Mr. Morgenthau said, in advance of the September financing so that the public would know what they are buying if there is a September offering. Following Mr. Bell's brief digest of the budget picture, Mr. Burgess remarked that the Government bond market is up a little this morning and that the premium on the September maturities is also steady to up, being 26/32 to 28/32.

Mr. Bell stated that he had received two calls this morning which might be of interest. One of them was from Moody's who regarded the Budget Summation as an excellent statement, who informed him that in their next bulletin they would stress the fact that the Treasury would ask for little money from the market during the current fiscal year. The other call was from Ogden Mills who directed attention to an error in the Herald Tribune table. Mr. Mills said he thought it was a good statement but that he would attack the relief expenditure expectations and the recoverable asset position.

Mr. Morgenthau said that he regarded it as important that this Budget Summation was gotten out in advance of the September Offering.

Mr. Burgess regarded it as fortunate that the papers played it down pretty much--because otherwise it would have

been regarded as a political document.

Mr. Broderick said that it was well timed and Mr. Viner said that the timing was altogether too good--it should have been gotten out last week.

Mr. Morgenthau commented that there are two possibilities in September: (1) A simple refunding with November bills to raise needed cash, or, (2) Refunding plus perhaps \$400 million cash now.

Mr. Fleming was of the opinion that the cash balance between now and December and in December would be pretty low if there were no new cash. He felt that now is a good time to get money and suggested \$750 cash in September.

Mr. Broderick referred to the fact that the market is now strong and suggested the possibility of refunding not only the September maturities but that of December as well--but asking for no cash. He thought it desirable to take advantage of the present market and ask for no new money. He would like to see the shorter maturities pushed as far ahead as possible.

Mr. Ransom thought \$400 million cash about as much as could be done now. He regarded the Broderick suggestion as interesting but costly. There would be no trouble with \$400 or \$500 million new money now but perhaps some difficulties later.

Mr. McKinney thought the present market should be taken advantage of to the extent perhaps of \$500 million new money. If refunding only is resorted to the market will be tremendously

stimulated and there may result considerable realization by banks for the benefit of the year's earning position.

Mr. Morgenthau asked if the Broderick suggestion was mechanically feasible. Mr. Bell replied that it was but that it was unusual to step ahead three months in maturity anticipation. That the most we had ever done was a month and a half.

Mr. McKinney asked if the public expected new money to be asked in September and Mr. Morgenthau replied that there was very little positive opinion. He referred to a Herald Tribune statement this morning that no one in Wall Street knows.

Mr. Ransom was of the opinion that the market is not strong because of beliefs that there will be no new money asked.

Mr. Burgess added that there might be some little sentiment of that character.

Mr. Szymeczak said that he would prefer to ask no new money now and certainly not more than \$400 million.

Mr. Morgenthau commented that if we asked \$400 million cash now we would have a balance of around \$700 million on December 14th. On the assumption that we do ask for cash he asked what kind of security should be offered.

Mr. Szymczak suggested a 2-3/4% bond with 1956-61 maturity.

Mr. Fleming thought a 20-25 year 2-3/4% bond the proper offering.

Mr. Broderick wanted as long a maturity as the market will take at 2-3/4% (Mr. Morgenthau suggested that Mr. Burgess must have been doing some "horse-shedding". He replied that they had talked together a little bit but that the rest of the group started out with the idea now being expressed. Mr. Ransom said he thought it the obvious procedure).

Mr. Burgess commented that there had been a suggestion of a 2-1/2% bond which would be the lowest since the war, and with maturity of say, 1947-50. The obvious difficulty to that suggestion is that there are a good many maturities around those years.

Mr. Ransom thought the longer maturity offered the better.

Mr. Burgess thought the open spaces within the years closer at hand ought to be left for use when it is necessary to issue short term securities. He added that the longer the bond the more appeal it would have for investors.

Mr. Thomas thought a half-billion new money now better than bills later for March or June maturity. He thought it difficult to figure what the market would be then. The money should be gotten now while there is a good opportunity. He preferred a long term 2-3/4% bond.

Mr. Taylor said he had difficulty in getting the 2-1/2% bond out of his head. He regards eleven years as a long time.

Mr. Haas referred to the recent sharp rise in long term bonds--thinks the market expects no new cash and says that if

we want to be absolutely safe we should lean toward a 2-1/2% bond with 1947-50 maturity.

Mr. Burgess said he thought Mr. Thomas' point a good one that if we issue a 2-1/2% bond now and then have to give 2-3/4% in December it will not look so good to the public.

Mr. Thomas added that there is considerable demand now by insurance companies and other institutional investors and that they would like a 2-3/4% loan bond. Mr. Burgess thought that the banks would scramble madly for 2-1/2%.

Mr. Broderick thought that we should appeal to the individual investor.

Mr. Burgess said there would be a more enthusiastic response to a 2-1/2%--almost too enthusiastic. There will be plenty response to 2-3/4% but not so much of a scramble.

Mr. Morgenthau asked about the effect on dealers and Mr. Burgess said there would not be much effect. The bond market might slip off just a little but the reflection would be very small--say 2/32 or 3/32. There would be small loss to those with bonds in portfolio but on the other hand they would make a little on their rates.

Mr. Viner said he feared that a 2-1/2% bond would be regarded as dressing the market. He would do sound financing to take care of Treasury needs and would pay no attention to the political campaign, doing whatever is technically invulnerable. He favored a 2-3/4% bond with as long maturity as is saleable for just enough to give the Treasury a comfortable.

cash bonus.

Mr. Upham stated his preference for the 2-3/4% bond of 20-25 years maturity.

Mr. Morgenthau asked if it would be considered unorthodox to issue a 2-1/2% bond and Mr. Burgess replied that it would. The market has constantly said that there should be no more maturities in the forties. To issue such a bond would not be considered prudent financing.

Mr. Morgenthau asked if banks would buy the 2-3/4% loan bond and Mr. Burgess replied that lots of them would, some to distribute slowly.

Mr. Morgenthau asked about shifting of bond portfolio by banks in New York recently and Mr. Burgess said there had been some selling by banks to insurance companies.

Mr. Morgenthau asked if the dealers had been so heavily loaded the previous financing and Mr. Burgess replied in the affirmative saying that they had upon occasions held as high as \$250 million whereas now the figure is \$190 million and some of those are September maturities.

Mr. Morgenthau told the group that at 8:45 tomorrow morning he would announce the amount of the September issue but not the maturity or the rate.

Mr. Burgess thought that good practice and sensible procedure and stated that the market liked it.

Mr. Morgenthau and Mr. Bell stated that the Treasury stays out of the market prior to financing and that we have

been out of the market almost entirely since the middle of July.

Mr. Burgess stated that the Reserve System also stays out of the market at such periods.

Mr. Morgenthau suggested that it is customary for the Treasury to accept subscriptions of 5% to 10% in excess of the offering which would make a \$400 million offering bring in \$440 million. That practice will be followed this time.

Mr. Morgenthau said that he wasn't yet sold on the long term bond. He said he had not the same confidence in the market as Burgess. He remembers the 2-7/8% and the necessity to nurse them. He referred to the suggestion three months ago, for a 3% long bond. Mr. Burgess said the market had changed a good deal since three months ago. Mr. Morgenthau said that he was much gratified at finding himself more conservative than Mr. Burgess.

Mr. Burgess informed Mr. Morgenthau that the Executive Committee of the Open Market Committee had voted to replace with the new bond offer the \$53 million of September maturities which they hold for system account.

Mr. Viner suggested that that might explain their interest in a 2-3/4% bond. But Mr. Burgess was of the opinion that perhaps from their standpoint 2-1/2% would be better than 2-3/4%.

Mr. Morgenthau recurred to Mr. Burgess' comment that the 2-1/2% would be more sought after than the 2-3/4%.

Mr. Burgess said that that was true of banks. He added

that the Treasury should do what is sound not what is most wanted.

Mr. Burgess said that the Open Market Committee can always support the market if necessary by letting bills run off and using the proceeds to buy bonds.

Mr. Bell raised the point of what would happen if the Federal Reserve did not replace their \$50 million on maturities and Mr. Burgess said that such a procedure would "raise hell".

It was agreed that from today the Reserve System would find itself under the necessity of altering their practice of three years standing of maintaining a constant and unchanged portfolio of governments.

Mr. Burgess said that he thought the point made by Mr. Thomas deserved emphasis. Business recovery has been rapid. There is a real chance of a boom developing. The Federal Reserve System may have to put on brakes. A rise in short money rates is a real possibility.

Mr. Broderick said that is a reason for not getting Government rates too low. Depreciation of bonds may be a trouble for banks. He would stick to the 2-3/4%. It looks normal. If we go down to 2-1/2% now and up to 2-3/4% later it will look bad.

Mr. Viner thought 2-3/4% low enough for Government bonds and regarded it as undesirable to go lower. The interest burden will go up on short terms quicker than on long terms.

Mr. Morgenthau referred to the Treasury record of the last two years including the conversion of liberty bonds and

the floatation of billions in new securities as almost unbelievable.

Mr. Taylor, Mr. Bell, Mr. Viner, Mr. Haas and Mr. Upham remained with the Secretary for a few minutes after the others had gone and discussed how much new money should be asked in September.

Arguments on both sides were presented.

Mr. Morgenthau indicated his desire to maintain the cash balance at not much below \$1 billion dollars for the near future. At the current rate for Treasury bills, the carrying charge for a balance of that size, he pointed out, is only \$2 million a year.

It was suggested that \$500 million could be asked without pushing the public debt above \$34 billion until after the election. It was suggested, however, that to ask for \$500 million now when it is expected to ask only \$750 million during the entire fiscal year, might cast some doubt in the public mind on the validity of the \$750 million figure.

It was replied that it should be remembered that more revenue comes in during the second half of the fiscal year than during the first, and that moreover, social security taxes will begin to accrue in January. It was pointed out that if only \$400 million were asked the total of the September financing would be less than \$1 billion, whereas \$500 million new money would carry the total over that figure.

Each person present wrote on a slip of paper the amount of new money that he favored asking in September.

Mr. Morgenthau, Mr. Taylor, and Mr. Haas voted for \$500 million. Mr. Bell, Mr. Viner, and Mr. Upham voted for \$400 million.

After two or three moments of cogitation, Mr. Morgenthau said, "well it is settled, we will ask for \$400 million".

**CONFIDENTIAL**

To be held in STRICT CONFIDENCE and no portion, synopsis, or intimation to be published or printed until the morning papers WEDNESDAY, SEPTEMBER 2, 1936.

D. W. BELL  
Acting Director of the Bureau of  
the Budget.

STATEMENT BY THE PRESIDENT  
ON THE  
SUMMATION OF THE 1937 BUDGET

STATEMENT BY THE PRESIDENT ON THE SUMMATION OF THE 1937 BUDGET

Continuing the practice inaugurated last year, the attached summation revises the Budget for the fiscal year 1937 by reflecting the changes affecting the estimates of revenues and expenditures which have occurred since the 1937 Budget was transmitted to Congress in January 1936. Two outstanding events have taken place since that time which have materially affected the receipts and expenditures of the Government. The first of these was the decision of the Supreme Court declaring the Agricultural Adjustment act unconstitutional, as a result of which the Government lost substantial revenue from processing taxes. The second was the passage by the Congress of the Adjusted Compensation Payment Act providing for the immediate payment at their face value of the Veterans' adjusted service certificates, which by their terms were not due until 1945.

As a result of the Supreme Court decision the estimated revenue from processing taxes for the fiscal year 1936 was reduced by \$452,000,000. Up to the time of that decision the Agricultural Adjustment Administration had expended in accordance with law the sum of \$325,000,000 and had made substantial commitments for additional expenditures in anticipation of revenue from this source. To provide for carrying

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out the moral obligation of the Government with respect to the commitments already entered into with farmers and which on their part had been at least partially performed, Congress appropriated \$296,000,000. *How much spent?*

By the enactment of the Soil Conservation and Domestic Allotment Act, which included authority for an annual appropriation of not to exceed \$500,000,000, Congress provided a new farm program to preserve to the farmers the benefits of fair and adequate prices for the product of their labors. *10*

The passage of the Adjusted Compensation Payment Act caused an increase in payments to veterans for the past year of \$1,674,000,000 and will result in further payments estimated at \$560,000,000 on this account during the present fiscal year.

To meet the additional requirements of the Treasury on account of these expenditures the Congress was requested to provide sufficient additional revenue, (1) to make good the loss of processing taxes in the fiscal year 1936, (2) to defray the annual cost of operation of the new farm program, and (3) to amortize over a period of nine years the cost of payment of the adjusted service certificates.

The Revenue Act of 1936, enacted by the Congress in response to this request, will produce, on the basis of

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estimated business conditions for the calendar year 1936, annual revenue in the amount of \$652,000,000. For the fiscal year 1937 the amount of this revenue will be only \$328,000,000, since only the first and second of the quarterly payments of income taxes under this Act will be made to the Treasury within that year. For the same year, however, there will be a non-recurring revenue of \$82,000,000 from the so-called windfall taxes.

#### Review of the Fiscal Year 1936

The total receipts amounted to \$4,115,956,615 against the estimate in the 1937 Budget of \$4,410,793,946, a net decrease of \$294,837,331. After taking into consideration the loss in processing taxes of \$452,000,000, receipts from other sources amounted to \$157,000,000 more than was estimated. Total receipts showed a net increase of \$316,000,000 over those for 1935, and receipts from sources other than processing taxes showed an increase over 1935 of \$760,000,000.

The total expenditures of the Government for the fiscal year ended June 30, 1936, amounted to \$8,879,798,258. The estimated expenditure shown in the Budget of last January of \$7,645,301,338 did not, of course, include \$1,674,000,000 for adjusted compensation payments. Except for these payments the expenditures would have been about \$439,000,000 less than the January estimate.

The deficit for the year amounted to \$4,763,841,642, which included \$403,240,150 for statutory debt retirement. Deducting this amount leaves a net deficit of \$4,360,601,492. The estimated net deficit as shown in the Budget of last January was \$2,682,482,392. Had it not been for the invalidation of processing taxes and the passage of the Adjusted Compensation Payment Act, the net deficit would have been less than the January estimate by more than \$400,000,000.

The public debt increased during the year \$5,077,650,869, but in that time the balance of cash in the general fund of the Treasury likewise showed an increase of \$840,164,664.

#### Forecast for the Fiscal Year 1937

Total receipts in the fiscal year 1937 are now estimated at \$5,665,839,000, a net increase of \$12,000,000 over the amount of the 1937 Budget estimate. The estimated increases in general revenue more than offset the revenue losses, due in part to the invalidation of the special taxes levied under the provisions of the Agricultural Adjustment and Bituminous Coal Conservation Acts, and in part to the method finally adopted for collecting taxes under the Social Security Act which will defer to the fiscal year 1938 the collection of a portion of these taxes. The losses from these causes amount to \$668,000,000, which are slightly more than offset by the following estimated increases in revenue: \$410,000,000

(including \$52,000,000 from the windfall taxes) resulting from the Revenue Act of 1936; \$33,000,000 from delayed collections of taxes on carriers and their employees; and \$237,000,000 constituting an upward revision of revenue estimates due chiefly to improvement in business conditions.

The expenditure requirements for the fiscal year 1937 are now estimated at \$7,762,835,300, which includes \$560,000,000 to complete the payments of adjusted compensation to veterans and \$580,000,000 for statutory debt retirement.

Some of the principal items included in the expenditure requirements are as follows: The Agricultural Adjustment Administration will require \$585,000,000 and the Civilian Conservation Corps \$300,000,000. The requirements of the Agricultural Adjustment Administration will be greater for 1937 than for 1936 due to the interruption of that program in the past year by the Supreme Court decision and the consequent postponement of expenditures. The expenditures for the Civilian Conservation Corps for 1937 will be less than those for 1936 due to the reduction made in the number of enrollees as compared with the number for 1936.

The operations of the Social Security Board and the establishment of the Old Age Reserve Account will require an additional \$405,000,000. The Board commenced operations late in the

fiscal year 1936 and its expenditures, therefore, were not large during that year. The Old Age Reserve Account will require an initial contribution in 1937 of \$265,000,000.

For interest on the public debt \$525,000,000 will be required. In view of the general improvement in business conditions, it is estimated that there will be required a net amount of \$1,635,000,000 for recovery and relief, an amount materially less than that for the fiscal year 1936.

The estimated expenditures for the other establishments are \$448,986,000 greater than the expenditures for 1936, due principally to the development of the regular annual public works program and to increased expenditures for national defense.

The estimated deficit for 1937 is \$2,096,996,300, which includes \$580,000,000 for statutory debt retirement and \$560,000,000 for further payments under the Adjusted Compensation Payment Act. Deducting the amount of the statutory debt retirement leaves a net deficit of \$1,516,996,300. This does not mean that there will be an increase in the public debt of this amount for the reason that it is contemplated during the year to reduce the working balance of the General Fund by approximately \$1,100,000,000. The following statements show the contemplated changes during the year in the working balance of the General Fund and in the gross public debt.

GENERAL FUND

Working balance June 30, 1936 .....		\$2,225,112,350
Receipts from taxes and miscellaneous sources.....		5,665,839,000
Receipts from sale of new public debt obligations (net after deduction of refunding issues and of statutory debt re- tirements).....		<u>750,000,000</u>
Funds available fiscal year 1937.....		\$8,640,951,350
Expenditures.....	\$7,762,835,300	
Less:		
Statutory debt retirements ...	\$580,000,000	
Veterans' bonds to be issued..	<u>560,000,000</u>	<u>1,140,000,000</u>
Cash required to meet ordinary expenditures.....	\$6,622,835,300	
Cash required to meet redemption of veterans' bonds.....	800,000,000	
Cash required to meet redemption of national bank notes.....	<u>100,000,000</u>	
Total cash required during fiscal year 1937.....		<u>7,522,835,300</u>
Estimated working balance June 30, 1937.....		<u>\$1,118,116,050</u>

PUBLIC DEBT

Gross public debt June 30, 1936.....		\$33,778,543,494
New public debt obligations:		
(a) To be sold to the public (net as above)....	\$750,000,000	
(b) To be issued to veterans.....	<u>560,000,000</u>	
Total new public debt obligations.....	\$1,310,000,000	
Less redemptions:		
Veterans' bonds.....	\$800,000,000	
National bank notes.....	<u>100,000,000</u>	<u>900,000,000</u>
Net increase in debt.....		<u>410,000,000</u>
Estimated gross public debt June 30, 1937.....		<u>\$34,188,543,494</u>

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The following table shows total receipts and expenditures for each of the fiscal years 1934, 1935, 1936 and revised estimates for 1937. It will be noted that there is a substantial reduction in the deficit (excluding debt retirement and veterans' bonds) for each of the years following the peak of 1934.

(In millions of dollars)

	1934	1935	1936	1937(est.)
Receipts	3116	3800	4116	5666
Expenditures	7105	7375	8880	7763
Gross deficit	3989	3575	4764	2097
Deduct-				
Debt retirement	360	573	403	580
Veterans' bonds	-	-	1674	560
Deficit (excluding debt retirement and veterans' bonds)	3629	3002	2687	957

In my message to Congress on March 18, 1936, requesting an appropriation of \$1,500,000,000 for relief of unemployment, I stated that that request, together with those previously submitted to the Congress to provide for the Civilian Conservation Corps and certain public works would, if acted upon favorably

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by the Congress, give security during the next fiscal year to those most in need, on condition, however, that private employers hire many of those now on relief rolls. I further stated that should industry cooperatively achieve the goal of reemployment, the appropriation of \$1,500,000,000, together with the unexpended balances of previous appropriations, would suffice to carry the Federal works program through the fiscal year 1937, and that only if industry failed to reduce substantially the number of those now out of work would another appropriation and further plans and policies be necessary. The unemployed are continuing to be absorbed in industry, and I believe that there will be a further substantial increase of such employment during the coming months. Whether it will be sufficient to permit such a reduction in work relief rolls as will bring them within the amount appropriated by Congress is a matter that cannot be determined for several months.

In estimating, moreover, the amount that would be necessary to care for a reduced number of unemployed during the current fiscal year, no account could be taken of the serious drought which has affected large sections of our country. To relieve this serious situation in the drought areas will require the expenditure of substantial amounts from the emergency relief appropriation, although the total amount that will be needed for

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this purpose cannot be determined at this time.

Another survey of the unemployment problem and the amount required for drought relief will be made early in the coming calendar year, and if additional appropriations for these purposes are found necessary, the amounts expended therefrom will, of course, increase the estimated expenditures shown in this summation. It is confidently expected that any such requests for additional funds will amount to less than \$500,000,000.

September 2, 1936.

## GENERAL FUND SUMMARY

BALANCED STATEMENT AS REQUIRED BY THE BUDGET AND ACCOUNTING ACT, 1951 (U.S.C., TITLE 31, SEC. 1 (f))

GENERAL AND SPECIAL ACCOUNTS	Revised estimate, fiscal year 1957	Actual, fiscal year 1956	Actual, fiscal year 1955
<b>I. RECEIPTS:</b>			
1. Revenues (Supporting Schedule No. 1):			
Internal revenues.....	5,074,691,000	3,512,451,608.15	3,277,690,027.82
Customs.....	402,000,000	385,811,593.69	393,353,033.56
Miscellaneous revenues.....	166,069,000	216,293,413.29	169,002,670.88
Total revenues.....	5,642,760,000	4,115,556,615.13	3,790,045,732.26
2. Realization upon assets.....	23,075,000	(1)	10,421,469.70
Total receipts.....	5,665,835,000	4,115,556,615.13	3,800,467,201.96
<b>II. EXPENDITURES (Supporting Schedule No. 2):</b>			
1. Legislative and executive.....	24,100,000	21,941,636.11	20,041,420.72
2. Civil departments and agencies, and the judiciary.....	991,735,300	717,300,755.69	589,501,937.22
3. National defense.....	980,000,000	764,439,120.94	533,597,243.04
4. Veterans' pensions and benefits:			
Veterans' Administration.....	600,000,000	675,982,094.01	605,573,274.31
Adjusted Compensation Payment.....	560,000,000	1,675,492,531.72	—
5. Agricultural Adjustment Administration.....	585,000,000	542,605,751.95	743,027,311.27
6. Civilian Conservation Corps.....	300,000,000	440,281,133.58	435,504,643.05
7. Social Security.....	405,000,000	24,135,121.64	—
8. Debt charges:			
Interest.....	825,000,000	749,796,201.68	820,326,353.45
Retirements.....	580,000,000	403,240,150.00	573,598,250.00
9. Refunds.....	17,000,000	44,185,625.74	85,247,679.31
10. Recovery and relief.....	1,875,000,000	2,776,796,464.51	3,064,403,053.20
11. Supplemental items (for above groups 1 to 7, inclusive).....	50,000,000	—	—
Total expenditures.....	7,762,835,300	6,479,794,057.64	7,375,425,165.97
<b>III. DEFICIT.....</b>	<b>2,096,996,300</b>	<b>4,763,641,642.42</b>	<b>3,575,357,963.61</b>
<b>IV. MEANS OF FINANCING DEFICIT:</b>			
1. Decrease in working balance (2).....	1,006,996,300	—	1,267,632,653.56
2. Borrowings (Supporting Schedule No. 3):			
(a) Replacing statutory debt retirements.....	580,000,000	403,240,150.00	573,598,250.00
(b) Increasing public debt (3).....	510,000,000	4,360,401,492.42	1,739,166,800.05
Total means of financing.....	2,096,996,300	4,763,641,642.42	3,575,357,963.61

(1) Included in miscellaneous receipts.

(2) There will be a further reduction in the general fund balance of \$100,000,000 for the purpose of retiring national bank notes, thus affecting a reduction in the public debt of this amount.

## SUPPORTING SCHEDULE NO. 1

## RECEIPTS

(Ordinary revenues and other receipts belonging to general and special accounts excluding postal revenues)

	Revised estimate, fiscal year 1937	Actual, fiscal year 1936	Actual, fiscal year 1935
<b>I. REVENUES:</b>			
<b>1. Internal revenues:</b>			
(1) Income tax .....	2,203,369,000	1,426,575,443.84	1,039,116,637.90
(2) Miscellaneous internal-revenue taxes			
Estate tax .....	268,000,000	218,790,753.53	140,440,682.34
Gift tax .....	110,000,000	160,098,761.47	71,671,276.89
Capital stock and excess-profits taxes .....	121,000,000	109,452,042.71	98,048,603.93
Alcoholic beverage taxes .....	589,800,000	505,464,037.10	411,021,772.75
Tobacco taxes .....	531,650,000	501,105,728.39	429,178,625.46
Stamp taxes .....	80,900,000	68,999,685.60	43,133,273.45
Manufacturers' excise taxes .....	408,820,000	382,652,152.90	341,999,395.97
Sundry taxes .....	94,600,000	88,592,012.88	106,469,100.85
Total (unadjusted) .....	2,204,170,000	2,034,895,371.08	1,675,982,831.24
Adjustment to daily Treasury statement .....	+ 26,000,000	- 26,000,079.60	- 16,791,312.54
Total miscellaneous internal-revenue taxes .....	2,230,170,000	2,008,895,291.48	1,659,191,518.70
(3) Processing taxes (Agricultural Adjustment Administration) .....	—	76,649,385.41	521,379,871.22
(4) Other internal-revenue taxes:			
Tax on unjust enrichment .....	82,000,000	—	—
Taxes on carriers and their employees .....	154,552,000	49,276.74	—
Bituminous coal tax .....	—	789,217.68	—
Social security taxes .....	304,600,000	—	—
Total other internal-revenue taxes .....	541,152,000	777,494.42	—
Total internal-revenue .....	5,074,522,000	3,512,651,668.15	3,277,650,287.22
<b>2. Customs .....</b>	402,000,000	386,811,993.60	345,353,033.50
<b>3. Miscellaneous revenues:</b>			
(1) Miscellaneous taxes .....	2,585,000	—	6,667,934.90
(2) Interest, exchange, and dividends .....	57,513,100	—	32,797,013.42
(3) Fines and penalties .....	1,823,300	—	6,658,214.55
(4) Fees .....	14,693,800	—	12,354,030.03
(5) Forfeitures .....	1,491,100	—	1,947,074.64
(6) Assessments .....	2,214,900	(1) 216,293,443.29	1,433,694.65
(7) Reimbursements .....	14,898,900	—	5,620,509.27
(8) Gifts and contributions .....	5,100	—	113,302.27
(9) Sales of products .....	3,022,300	—	2,392,756.70
(10) Sales of services .....	28,619,200	—	27,467,088.06
(11) Rents and royalties .....	8,054,300	—	5,159,631.59
(12) Fines, privileges, and licenses .....	2,654,700	—	1,826,536.54
(13) Sundry receipts .....	29,371,800	—	65,877,808.26
Total (unadjusted) .....	166,069,000	216,293,443.29	170,316,407.42
Adjustment to daily Treasury statement .....	—	—	- 1,313,736.54
Total miscellaneous revenues .....	166,069,000	216,293,443.29	169,002,670.88
Total revenues .....	5,642,750,000	4,115,955,615.13	3,790,046,730.26
<b>II. REALIZATION UPON ASSETS:</b>			
1. Repayments of investments .....	21,200,300	(2)	7,320,405.47
2. Sales of public lands, Department of the Interior .....	—	—	86,757.68
3. Sales of Government property .....	1,878,700	—	3,014,308.57
Total realization upon assets .....	23,079,000	(2)	10,421,471.72
<b>Total receipts, general and special accounts .....</b>	<b>5,665,830,000</b>	<b>4,115,955,615.13</b>	<b>3,800,468,201.98</b>

(1) Separation not yet available.

(2) Included under miscellaneous revenues, separation not yet available.

## SUPPLEMENTARY SCHEDULE NO. 2

## EXPENDITURES

(Estimated and actual expenditures from general and special accounts)

	Revised estimate, fiscal year 1937	Actual, fiscal year 1936	Actual, fiscal year 1935
<b>I. LEGISLATIVE AND EXECUTIVE:</b>			
1. Legislative establishment.....	23,600,000	21,216,234.43	13,623,786.99
2. Executive Office.....	900,000	625,401.64	357,493.77
Total, legislative, and executive.....	24,500,000	21,841,636.11	14,021,280.76
<b>II. CIVIL DEPARTMENTS AND AGENCIES, AND THE JUDICIARY:</b>			
1. Department of Agriculture.....	185,000,000	105,584,626.31	66,076,811.90
2. Department of Commerce.....	33,000,000	23,070,529.09	10,967,463.76
3. Department of the Interior.....	58,000,000	64,080,526.38	55,211,496.13
Reidley Canyon project.....	13,000,000	13,483,113.33	—
4. Department of Justice (including the judiciary).....	38,000,000	37,424,352.96	32,274,677.51
5. Department of Labor.....	21,000,000	17,131,185.74	13,022,157.65
6. Department of State.....	14,500,000	14,414,356.30	15,800,773.42
7. Treasury Department (except debt retirement, interest, old age Reserve account, and refunds, VII, VIII and IX below)	195,000,000	149,720,328.52	147,132,521.42
8. War Department (nonmilitary).....	130,000,000	72,685,026.82	57,245,669.33
Panama Canal.....	11,500,000	11,497,774.92	4,764,264.74
9. Independent Offices and Detachments.....	85,000,000	52,014,467.13	44,321,273.57
10. Tennessee Valley Authority.....	45,000,000	21,014,725.44	—
11. Retirement Funds, civil, Canal Zone, and Foreign Service (Government share)	46,735,330	40,450,400.00	21,009,100.00
12. Post Office Department, deficiencies.....	70,000,000	45,860,222.32	67,354,144.64
13. District of Columbia, contributions.....	5,000,000	5,271,200.00	4,139,293.00
District of Columbia, contributions.....	5,000,000	2,017,195.47	8,490,165.30
Unclassified items.....	—	-4,463,463.07	-4,416,302.83
Adjustment discharging officers' checks outstanding.....	—	—	—
Total, civil departments and agencies, and the judiciary.....	993,735,330	717,240,795.05	529,301,537.02
<b>III. NATIONAL DEFENSE:</b>			
1. Army Department.....	530,000,000	391,424,149.26	321,442,530.43
2. War Department.....	370,000,000	373,014,377.64	232,146,712.61
Total, national defense.....	900,000,000	764,438,526.90	553,589,243.04
<b>IV. VETERANS' PENSIONS AND BENEFITS:</b>			
1. Veterans' Administration.....	600,000,000	675,922,694.01	605,573,274.31
2. Adjusted Compensation Payment.....	460,000,000	1,673,542,531.72	—
Total, Veterans' pensions and benefits.....	1,160,000,000	2,349,465,225.73	605,573,274.31
<b>V. AGRICULTURAL ADJUSTMENT ADMINISTRATION:</b>			
1. Agricultural Adjustment Administration.....	590,000,000	532,524,007.32	711,423,102.95
Refunds of processing taxes.....	35,000,000	10,642,704.63	31,424,404.32
Total, Agricultural Adjustment Administration.....	590,000,000	542,666,711.95	743,047,511.27
<b>VI. CIVILIAN CONSERVATION CORPS:</b>			
1. Civilian Conservation Corps.....	300,000,000	446,261,193.56	435,344,443.05
<b>VII. SOCIAL SECURITY:</b>			
1. Social Security Board.....	130,000,000	24,136,121.64	—
2. Old Age Reserve Account.....	265,000,000	—	—
Total, social security.....	395,000,000	24,136,121.64	—
<b>VIII. DEBT CHARGES:</b>			
1. Interest.....	825,000,000	749,396,801.62	820,524,333.43
2. Retirement.....	580,000,000	403,240,130.00	573,524,250.00
Total, debt charges.....	1,405,000,000	1,152,636,931.62	1,394,048,583.43
<b>IX. REFUNDS:</b>			
1. Customs.....	17,000,000	14,025,195.44	22,715,648.49
2. Internal revenue.....	30,000,000	30,100,430.34	24,531,350.02
Total, refunds.....	47,000,000	44,125,625.78	47,247,018.51

<sup>a</sup> Excess of credits, debit.

## SUPPORTING SCHEDULE NO. 2 -- CONTINUED

## EXPENDITURES -- CONTINUED

	Revised estimate, fiscal year 1957	Actual, fiscal year 1956	Actual, fiscal year 1955
<b>I. RECOVERY AND RELIEF:</b>			
1. Agricultural aids:			
(1) Commodity Credit Corporation.....	\$175,000,000	129,715,022.55	560,114,064.46
(2) Farm Credit Administration (including Federal Farm Mortgage Corporation).....	\$ 80,000,000	\$ 33,223,232.37	111,500,611.96
(3) Federal land banks.....	64,000,000	66,186,790.65	16,107,860.54
Total, agricultural aids.....	\$ 319,000,000	196,976,986.79	127,164,610.44
2. Relief:			
(1) Federal Emergency Relief Administration (including Federal Surplus Relief Corporation).....	7,500,000	169,591,986.97	1,211,312,306.47
(2) Civil Works Administration.....	500,000	676,195.79	11,327,263.67
(3) Drought-stricken areas (Department of Agriculture).....	1,000,000	2,892,168.90	80,561,810.99
Total, relief.....	9,000,000	169,150,651.66	1,906,230,880.53
3. Public works:			
(1) Administrative expense, Public Works Administration.....	80,000,000	25,295,169.16	14,561,008.60
(2) Boulder Canyon project.....	9,000,000	10,029,710.53	23,820,507.04
(3) Loans and grants to States, municipalities, etc.....	250,000,000	172,116,011.89	137,707,117.16
(4) Loans to railroads.....	---	\$ 127,021,597.33	66,290,752.95
(5) Public highways.....	220,000,000	215,095,581.31	517,356,960.09
(6) River and harbor works.....	25,000,000	152,318,737.09	117,921,751.64
(7) Works Progress Administration.....	1,350,000,000	1,263,461,160.21	---
(8) Other public works (national defense, public buildings, etc.).....	250,000,000	381,180,113.64	312,810,168.76
Total, public works.....	2,114,000,000	2,092,069,806.50	1,080,111,840.50
4. Aids to home owners:			
(1) Home loan system.....	3,000,000	37,595,358.26	75,185,784.08
(2) Emergency housing.....	160,000,000	21,906,125.12	6,179,835.17
(3) Federal Housing Administration.....	15,000,000	14,504,600.14	15,965,873.02
(4) Resettlement Administration.....	130,000,000	137,907,725.28	1,761,665.06
(5) Subsistence homesteads.....	---	108,864.37	3,661,937.71
Total, aids to home owners.....	188,000,000	211,812,369.47	109,594,093.34
5. Miscellaneous:			
(1) Export-Import Bank of Washington.....	10,000,000	19,581,167.76	\$ 2,616,126.63
(2) Federal Deposit Insurance Corporation.....	---	---	167,050.35
(3) Administration for industrial recovery.....	---	5,111,371.02	12,106,730.81
Total, miscellaneous.....	10,000,000	24,692,688.78	10,779,807.53
6. Reconstruction Finance Corporation.....	\$ 125,000,000	\$ 298,722,116.78	\$ 155,384,933.68
7. Tennessee Valley Authority.....	---	27,211,668.09	36,118,537.34
Total, recovery and relief.....	1,883,000,000	2,776,796,168.51	3,016,805,095.80
II. SUPPLEMENTAL ITEMS.....			
	90,000,000	---	---
Total, expenditures.....	7,762,935,500	8,879,796,257.61	7,375,485,165.57

± Excess of credits, deduct.

SUPPORTING SCHEDULE NO. 3  
STATEMENT OF THE PUBLIC DEBT OF FINANCING THE DEFICIT

	Revised estimate, fiscal year 1937	Actual, fiscal year 1936	Actual, fiscal year 1935
Public debt at beginning of year.....	33,774,933,493.73	28,700,090,604.53	27,053,122,244.46
Increase in public debt during year:			
To meet deficiency in revenues and receipts, general and special accounts.....	2,056,996,300.00	4,763,001,626.48	3,575,337,963.46
Less debt retirements included in deficit.....	980,000,000.00	403,000,130.00	513,556,250.00
Increase in working balance (a) decrease (-) general and special accounts.....	1,316,996,300.00	4,360,001,496.48	3,061,781,713.46
	-1,000,000,000.00	+ 1,114,471,056.78	-1,260,632,033.56
Total increase in public debt during year.....	516,000,000.00	5,477,073,369.30	1,798,146,840.09
Decrease in public debt during year due to retirement of national bank notes:			
(a) Chargeable to working balance.....	- 100,000,000.00	- 397,422,489.00	-
(b) Chargeable to increment on gold.....	-	-	- 21,465,650.00
Net increase in public debt during year.....	416,000,000.00	5,077,650,880.30	1,647,151,110.09
Public debt at end of year.....	34,190,933,493.73	33,774,933,493.73	28,700,090,604.53

September 2, 1936

Graves, Gorman, Anslinger, Gaston and W. N. Thompson were present at the meeting in the Secretary's office today.

Mr. Graves handed the Secretary an order which would temporarily promote Malachi L. Harney, now a Special Agent of the Intelligence Unit, as Assistant to the Commissioner of Narcotics. HM, Jr. asked Anslinger if it would be agreeable to him to have Harney as his Assistant and Anslinger replied, "You could not make a better selection." Harney was then asked to join the group. The Secretary said to him, "You have been recommended to go in as Assistant to Mr. Anslinger." To Mr. Graves, the Secretary said, "Is this permanent or temporary appointment?" Graves answered that it was a temporary assignment. HM, Jr. asked Mr. Harney where he had been working and he replied, "I have been working in the Intelligence Unit in Chicago, under Mr. Madden." To Anslinger the Secretary said, "I understand you will put the police end under Harney," and Anslinger answered, "Yes." Harney then told the Secretary: "I have always been on the investigating end. I worked in the Prohibition Unit under the Department of Justice." Graves said, "I think Harney's appointment is excellent." Anslinger said, "I am very, very satisfied with Harney's appointment."

The Secretary then spoke directly to Mr. Harney, saying: "I consider this a great responsibility. Anslinger is your Chief and he will give you all the freedom you want. After you have been at it for a couple of weeks, I want the two of you to come in to see me. If anybody is inefficient and crooked, let him go no matter whose friend he is. I am not so much interested in the poor addicts as I am in the fellow who is selling the stuff or the fellow behind the fellow who is selling it."

Mr. Graves said, "May I say that Harney ought to go back to Chicago and finish up some work under Madden."

The Secretary liked Harney very much.

ooo-ooo

Mr. Gorman joined the group at this point.

Mr. Graves handed Mr. Morgenthau a memorandum (attached) instructing Mr. Bernard Wait to proceed to Washington for a

-2-

conference with reference to the possibility of assigning him to the supervision of all Treasury activities in Europe, including Narcotics. The Secretary signed this memorandum.

oOo-oOo

Graves next handed the Secretary a memorandum addressed to the Commissioner of Narcotics, informing him that hereafter the Customs Agency Service will be charged with full responsibility for the conduct of all narcotic smuggling investigations abroad. In this memorandum is mentioned the fact that Mr. Bulkley, now in the Narcotics Bureau, will be transferred to the office of the Deputy Commissioner of Customs in charge of the Customs Agency Service, who will be the contact person here for narcotics smuggling investigations abroad.

Mr. Bulkley was brought in and the Secretary told him that he was going to be transferred and that immediately after the meeting Mr. Graves would give him all the details.

The Secretary liked Mr. Bulkley.

Mr. Gaston will prepare a story on the various transfers to be given out at one of the Secretary's press conferences in the near future.

Mr. Malachi L. Harney,  
Special Agent,  
Intelligence Unit,  
Bureau of Internal Revenue,  
Chicago, Illinois.

Sir:

Subject to classification and Civil Service approval,  
you are hereby temporarily transferred, promoted and ap-  
pointed as Assistant to the Commissioner of Narcotics,  
CAF-14, with compensation at the rate of sixty-five hundred  
dollars per annum, effective on date of oath.

Very truly yours,

Secretary of the Treasury.

Oath:

HMB:mas

September 2, 1936.

**The Commissioner of Customs**

Will you please instruct Mr. Wait, at Paris, by cable, to report to Washington at the earliest practicable date for conference and instruction with reference to the possibility of assigning him to the supervision of all Treasury activities in Europe, including narcotic-smuggling investigations heretofore handled by representatives of the Commissioner of Narcotics.

Preliminary to Mr. Wait's reporting to Washington for this purpose, please instruct him to visit the Customs offices at London, Berlin, and Vienna, and to confer fully with the Narcotics representative at Paris, so as to familiarize himself thoroughly with the problems which confront all Treasury officers in Europe.

The transfer of Customs Agent Moore of Laredo, Texas, to Shanghai, is approved.

HNG/mff

Secretary.

September 2, 1936.

**The Commissioner of Narcotics**

Hereafter, the Customs Agency Service will be charged with fully responsibility for the conduct of all narcotic-smuggling investigations abroad.

In this connection, I have asked Mr. Welf, Treasury Attache at Paris, to report at Washington as soon as possible for conference and instructions. In the course of Mr. Welf's visit here, steps should be taken to transfer to the Customs Agency Service all agents of the Bureau of Narcotics now on duty in Europe.

All contacts with the Department of State with reference to the international aspects of narcotic traffic (whether with relation to smuggling matters originating in the Customs Service or to matters of foreign control of the legitimate traffic originating in the Bureau of Narcotics), will be handled by, or under the supervision of, Assistant Secretary Taylor.

All reports of seizures, having an international aspect, of narcotic drugs, by officers of the Federal, State, or municipal governments will hereafter be transmitted to the League of Nations (Opium Convention) by the Customs Agency Service.

Will you please prepare an appropriate letter to the Secretary of State for my signature, requesting him to advise the representatives of all foreign administrations that, in lieu of existing arrangements, the Customs Agency Service has been clothed with full authority to receive and impart information, by direct communication or otherwise, reciprocally, with relation to any and all phases of the illicit traffic in narcotic drugs.

In connection with this transfer of functions from the Bureau of Narcotics to the Customs Agency Service, will you please arrange for the transfer to the Office of the Deputy Commissioner of Customs in Charge of the Customs Agency Service, of Mr. Bulkeley of your office, together with his secretary, his files, all foreign-investigation data, and all data relating to League of Nations (Opium Convention) reports concerning narcotic smuggling.

HBC/wfr

Secretary.

September 2, 1936

Helvering and Oliphant discussed with the Secretary the tax case of Wirt Bowman, of Arizona. In 1926 he had an income of \$232,000, which he did not report. Investigation disclosed that he received \$150,000 as a gift from President Calles of the Republic of Mexico. Bowman's explanation is that during the revolution he gave money and ammunition to President Calles and this was just a reimbursement. President Calles sent in a sworn affidavit confirming Bowman's statement.

Bowman filed an appeal with the Board of Tax Appeals in which he pled the Statute of Limitations. Oliphant claims that in order to raise the Statute of Limitations they would have to charge fraud and the chances of proving fraud were not positive and Bowman being a National Committeeman in Arizona this charge naturally would smear him.

HM Jr. was quite annoyed and said he did not understand why this should be treated any differently from any other case, even though the President of the Republic of Mexico was involved and Bowman was a National Committeeman. Oliphant said he was just warning the Secretary and felt he ought to know that there would be back-fire on this case. HM, Jr. told him to go through with it.

September 2, 1936

I asked Miss Roche if anything was to be done about Governor Johnson of Colorado, running for the Senate, when she thought the time would be ripe to act. She said that he is going to run in the Primaries on Tuesday against Sweet and that Johnson was very anti-Roosevelt.

I said if anything broke about Johnson after Tuesday then it would be a reflection on the party, and she said yes. I did not tell her what I had in mind, but I have Irey's report showing that Johnson is a crook and what I will try to do is to get them to break this story between now and Saturday.

I called in Helvering and Irey and said to him: I want to know this. On the information that we have on Governor Johnson, is there any reason why, in the interest of the public, we should not file a suit between now and Saturday. We are going to do it anyway. It is just a question of timing it. Talk it over and come back and see me again.

\* \* \*

I called Helvering a day or two later and said, I do not see any basis on which we can bring a suit in connection with Governor Johnson. We can immediately start investigation, which will give it publicity immediately. Helvering answered, I doubt the wisdom of the Treasury jumping into this thing just at this time, and I said, I accept your suggestion. Let it take its natural course.

Wednesday  
September 2, 1936  
2:55 p. m.

Frank J.  
Wideman: - Mr. Secretary

HMjr: Yes

W: How are you, sir?

HMjr: I'm very well, thank you.

W: You asked me to keep you advised on this Associated Gas Case -

HMjr: Right

W: And we have been plugging along, as you probably know, during the summer -

HMjr: True

W: And I've kept in rather close touch with Mr. Oliphant on it.

HMjr: Fine

W: And we've I think held things in pretty good shape so far.

HMjr: Fine

W: I had a conference, though, Mr. Morgenthau, with Mr. Kraus last week -

HMjr: Yes

W: I went over to New York just for the purpose of getting set with him and a million things up to date. I have not conferred with him much heretofore.

HMjr: Yes

W: But there are developments recently in it that I thought I'd better talk to him and I did and had quite a long conference with him.

HMjr: With whom?

W: Kraus - he's the attorney for the petitioning creditors -

HMjr: Oh -

W: - in the Seventy-seven B Proceedings.

HMjr: Oh yes

W: You see, he's the man that filed the petition in the Seventy-seven B Bankruptcy Proceeding.

HMjr: Oh

W: And we've been - we have been in that as a friend of the court, you see, and not as a party.

HMjr: Oh yes

W: But, at the same time, we have had occasion to work rather closely with Kraus because his interest and our interest are pretty much the same.

HMjr: I see.

W: Now, I thought it would be well and that you would be interested to have me go over the thing briefly with you, say some time tomorrow, if it's convenient with you?

HMjr: No, I tell you what I'd like to do. I'm just in the midst of preparing for my financing.

W: Yes

HMjr: And by Tuesday it'll be out of the way, see?

W: I see.

HMjr: And you call up Tuesday, my secretary, I'd like to make an appointment and I would like to see you very much.

W: All right, fine.

HMjr: I'd like to see you next Tuesday or Wednesday.

W: I will -

HMjr: But until this financing is over - I'm just concentrating on that.

W: Well, of course, that's the most important thing.

HMjr: But I'd like very much to see you next Tuesday or Wednesday.

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W: Well, that's fine, and I'll call your secretary for an appointment at that time.

HMjr: Thank you.

Goodbye

Wednesday  
September 2, 1936  
3:00 p. m.

HMjr: Burgess?  
W. R.  
Burgess: Yes, sir

HMjr: I hear one of our banker friends can't come down?  
B: Well, Bud is away -  
HMjr: Yes  
B: And his - his first understudy, Conway, who is the president, is also to be away tomorrow in Boston -  
HMjr: Right  
B: So it's a little difficult to get the top fellows there.  
HMjr: Well, that's too bad.  
B: Yes  
HMjr: Now - who - I tell you who we might think of. What about the fellow who is the head of the manufacturers?  
B: Gibson?  
HMjr: Yes  
B: - or Vonnell  
HMjr: No, Gibson  
B: Yes - I don't know whether he's in town or not. Well, I'll be glad to try him. It's - it's four o'clock now, it's a little late notice, but I'll be very glad to try.  
HMjr: Well, I could see him Friday you know?  
B: I see, Friday afternoon -  
HMjr: Yes  
B: Or Friday after Davidson?  
HMjr: Yes

B: Say -

HMjr: After all, Gibson was the first fellow that would go out for long bonds, wasn't he?

B: Yes - yes - he's a good man. See if you can't get Gibson.

HMjr: Now, the only appointments I have, let's see, you've made one tonight, I have one tomorrow night and Davidson Friday morning -

B: At ten fifteen - yes

HMjr: What about Levy?

B: Well, Levy I've got standing by so you can see him any time tomorrow that you -

HMjr: Well, run him in tomorrow afternoon if you can, at three o'clock.

B: All right - I'll get him. And I'll try Gibson for Friday.

HMjr: Yes

B: Either, say eleven thirty or -

HMjr: Eleven thirty or three

B: Or three -

HMjr: Yes

B: All right. All right, I'll try that.

HMjr: And will you let me know?

B: Yes

HMjr: Righto

B: Now, did - did Wayne talk to you about Arthur Young?

HMjr: Talk to me about that tonight, will you?

B: Yes, all right.

HMjr: Talk to me about that tonight.

B: Yes, yes - all right, well, I'll see who I can get of these fellows.

HMjr: Right, thank you.

B: First rate.

September 3, 1936

### Drug Vigilance.

Readers of The Post who have been following the thought-provoking series of articles by Gerald Gross, on the illicit narcotics traffic, will appreciate the deeper significance of a Treasury order which quietly became effective this week. Henceforth the Customs Border Patrol officers will be directly responsible to the chief of the Customs Agency Service.

Heretofore the efficiency of this service has been impeded by a tortuous differentiation between the procedure of its plainclothes investigators and the uniformed patrol corps. The former reported to the agency chief in Washington; the latter were under the immediate control of the customs collectors of their several districts.

Secretary Morgenthau's order takes up the slack in this red tape and makes the Capital the focal point of the entire service. The result promises to be beneficial to all governmental anti-smuggling activities. But its particular value lies in the foreshadowed intensification of the Federal war upon narcotics smuggling.

Under Commissioner Anslinger, the Treasury's Narcotic Bureau has attained a high degree of efficiency. It has served as a model at Geneva conferences on drug control for recommendations to other governments in the setting up and conduct of such bureaus. But it has never been allowed a staff of field workers in excess of about 250 men, who must cover all the United States, Alaska and Hawaii. Now, without suffering any trespass upon its special identity, it will have the close co-operation of the 570 members of the Border Patrol.

There is no great secret about the fact that this was the major purpose of Secretary Morgenthau in drafting his new order. All who appreciate the magnitude of the dope traffic will approve this further step in curbing its evils.

Thursday  
September 3, 1936  
9:45 a. m.

HMjr: -Discount was so enthusiastic about how I've handled things, see?

W. R. Burgess: Yes

HMjr: And, frankly that article of Krock's last week - this week bothered me considerably, see?

B: Well, I don't think you ought to let it bother you, you've got to be tough skinned on those things.

HMjr: I know, but I know how Krock works.

B: Yes

HMjr: And I was just wondering - and I think I know you well enough that I can say this and you'll tell me.

B: Yes

HMjr: - Whether in talking to - what's his name? - oh, the head of the Discount- ?

B: Mills

HMjr: Yes - that if he feels so enthusiastic would he like to pass it on to Krock.

B: Yes, yes

HMjr: See? - What do you think? You see, Krock, when I called him said, 'Well, this is what the people in the Street think about you', see?

B: I see. Well, let me - let me turn that over.

HMjr: Turn it over - if you're not sure, I'd rather not do it, see?

B: Yes

HMjr: But I was thinking if I could get two or three people who really thought well, I mean I don't want to ask them but - would be cheerful - do it cheerfully, you see?

B: Yes

HMjr: I'd like them to send for Krock and have a talk with him.

- B: Of course once a fellow like that has taken his position he's awfully hard to deal with.
- HMjr: Oh no, Krock is very susceptible.
- B: Is he?
- HMjr: Oh, very - he's very susceptible.
- B: Yes
- HMjr: But, I don't want you to do it - you can - if you decide after thinking it over it's a mistake I don't mind at all your saying so, in fact I'd like you to tell me, see?
- B: Yes - well, I don't - I don't see any reason why - why sometime if Krock's in New York he can't -
- HMjr: He is in New York now, you see, -
- B: He is?
- HMjr: Oh yes, he's right up there.
- B: Yes - well I don't see any reason why he couldn't talk to Mills.
- HMjr: You see, Mills, I mean I didn't ask him, but he was - Krock thinks the sun rises and sets - he wrote another editorial about Coolidge who I don't want to say anything against because I consider Coolidge one of my good friends.
- B: Yes
- HMjr: And - but when he begins to compare me with some other people like Jesse and say that the thing to do is to decapitate me and put in either Jones or Kennedy, see?
- B: Yes
- HMjr: - the way he did in that article -
- B: Yes, yes
- HMjr: Nobody is more susceptible to flattery or - than Krock is, you see?
- B: I see, yes.

HMjr: Now, if he got it from a man like Mills the head of the Discount, see?

B: Yes

HMjr: He'd just sit up and take notice.

B: Yes, yes, yes - Of course if Krock's going to write on the subject he ought to talk to a number of people around the Street.

HMjr: Pardon me?

B: If he's going to write on the subject he ought to talk to a number of people on the Street, -

HMjr: Right

B: - and not get all his stuff from one or two sources.

HMjr: Yes - and what I'd like to do, perfectly frankly, if there are a couple of people up there who you think do think I'm doing a good job. I mean, I'd like to bring it to Krock's attention.

B: Yes

HMjr: See?

B: Yes, yes - well, let me - let me -

HMjr: You think it over, and Burgess, you can be perfectly frank, if you don't think well of it -

B: Yes

HMjr: - you can tell me so and I'll understand it.

B: Yes

HMjr: See?

B: All right, fine, fine - I'll turn it over.

HMjr: I mean I figure I'm - that you're a good enough friend of mind that I can ask you this and talk to you about it.

B: Well, I can talk it over, - I can mention it very frankly to Mills without any embarrassment.

HMjr: Yes

B: And I imagine he'd be willing to see Krock or chat with him any time.

HMjr: Yes, well and if he sends for him, well, I know just how it would be done, but -

B: Yes

HMjr: I called Krock and Krock's worried about it because he sent a message down, - would I read what he wrote about me last January which evidently was complimentary.

B: (Laughs)

HMjr: I haven't seen it, but he's worried about it and Sulzberger's worried because I got a letter yesterday from Sulzberger telling me not to be so thin-skinned.

B: Yes -

HMjr: So they're both worried about it.

B: Yes, yes - yes - Well, I - let me think it over - what would be the way -

HMjr: You think it over.

B: What would be the way to do it.

HMjr: You think it over.

B: Yes, I think something could be done there.

HMjr: Well, just think it over.

B: Yes, yes, yes

HMjr: O. K.

B: First rate

HMjr: Goodbye.

Sept. 3, 1936

Meeting of Executive Committee of Federal Reserve Open Market Committee in Secretary's office. Bell explained fiscal position of Treasury. General comment on Budget.

Summation made public yesterday. Mr. Fleming, Pres. Federal Reserve Bank of Cleveland, thought now was good time to get new money; suggested 750 million dollars in September; suggested 20-25 year  $2\frac{3}{4}\%$  bond.

Mr. Broderick, Federal Reserve Bank, thought it desirable to ask for no new money and suggested possibility of refunding both September and December maturities.

Mr. Ransom, Federal Reserve Bank, thought 400 million dollars cash about limit of what could be done now.

Mr. McKinney, Federal Reserve Bank, Dallas, thought well of 500 million dollars new money.

Mr. Szymczak preferred no new money and if any, not more than 400 million dollars. Suggested 1956-1961  $2\frac{3}{4}\%$  bond.

Mr. Thomas liked 500 million dollars new money. Preferred long term  $2\frac{3}{4}\%$  bond.

Haas thinks for safety  $2\frac{1}{2}\%$  bond with 1947-1950 maturity.

Viner wanted no political dressing; favored  $2\frac{3}{4}\%$  with as long maturity as is saleable.

Upham's preference was for  $2\frac{3}{4}\%$  20-25 year maturity.

HMJr. said he would tomorrow announce amount of September issue but not maturity or rate. Burgess agreed. He is not yet sold on long term bond.

Treasury group remained after others departed. After taking a vote, HMJr., Taylor and Haas voted for 500 million dollars. Bell, Viner and Upham voted for 400 million dollars. HMJr. decided to ask for 400 million dollars.

SEE: DIARY FINANCING FILE under date of  
Sept. 3, 1936.

1. increase financing  
by \$400.00

2. Reasons  
income tax put off 90 days  
Have to get N. I. T. C. \$50, million

3. England Has moved  
1/2 of gold out of France

REPORT OF SECRETARY MORGENTHAU'S  
PRESS CONFERENCE - SEPTEMBER 3, 1936.  
AT 8:45 A. M.

H.M., Jr. I just want to tell you fellows breakfast is on me this morning. Everybody is shaved - it's wonderful, had a bath and everything. I just want to tell you that in addition to the refunding, we are going to ask for \$400,000,000 in cash.

Q. This is your smallest cash offering since when?

Bell. I don't know. I will have to check it up. I guess it is the smallest for sometime.

Q. It is almost the smallest since you came?

H.M., Jr. I think it is the smallest since I came here.

Q. Is that \$514,000,000 of refinancing?

A. Yes. We refund \$514,000,000 and then in addition ask for \$400,000,000 in cash.

Q. Will this mean, Mr. Secretary, that according to the budget estimate the other day, you will only borrow about \$350,000,000 between now and the end of the fiscal year.

A. The net borrowing will not exceed \$750,000,000 for the rest of the fiscal year.

Q. That is for the whole fiscal year?

A. Yes. From now to June 30th.

Q. Only notes.

A. Now?

Q. Yes.

A. I did not say.

Q. Mr. Secretary, you have idle funds, it said in that statement the other day of \$1,600,000,000 or \$1,700,000,000, all told.

- A. Our working balance - we never give out the exact figures, but it is around \$1,000,000,000 and I want to keep the working balance at approximately \$1,000,000,000 because I feel that in these times with conditions as they are abroad it is a very desirable thing to do and furthermore if you figure out using our bills, because that is what we do use, this billion dollar balance costs us about \$2,000,000 a year and I think that it is the safest and cheapest insurance fund that we could have for the American people against any unforeseen happening which may occur. It costs us about \$2,000,000 a year to carry this.
- Q. That was not exactly what I had in mind.
- A. No. But I wanted to put it over.
- Q. Well, we will probably try to put it over but I am trying to reconcile this borrowing against utilization of idle funds in the Treasury in cutting down the deficit. Are you going to use \$1,100,000,000 of idle funds in the Treasury against the so-called \$2,000,000,000 or is it really a \$1,500,000,000 deficit?
- A. I don't quite get the question. I don't want to shut you off.
- Bell. What you are trying to say is, when is this reduction ...
- Q. No. Why the reduction of a million dollars? Why get new money?
- Bell. That is over the entire fiscal year and you can't relate that to any particular quarter. We have already reduced the working balance by \$800,000,000 the first three months of this year.
- H.M., Jr. That are two factors which have come up recently. One we have postponed for ninety days the so-called wind-fall taxes and two we are taking care of the current needs of HOLC instead of their going into

the market to borrow for their current needs. We are going to take care of their current needs and those are the factors calling on us for additional funds.

- Q. If we want to get this on the ticker before the market opens I think we had better go. Can you say anything about any other cash borrowing between now and December 15th?
- A. I can't, but I want to say one thing, -- this offering will be on the same rules and regulations as three months ago. No change from three months ago. And if you want to see me at 10:30 I am available. Get in touch with Mr. Gaston.

NS18

IN A SURPRISE MOVE, SECRETARY OF TREASURY MORGENTHAU ANNOUNCED

THAT THE TREASURY WILL BORROW \$400,000,000 IN NEW CASH IN

ADDITION TO REFUNDING \$514,000,000 IN NOTES FALLING DUE SEPT. 15.

9/3--JE902A

SEP 8 1936

ADD TREASURY

9.11

WASHN - IN VIEW OF CONDITIONS AT HOME AND ABROAD THE TREASURY DESIRES TO KEEP A CASH BALANCE OF AT LEAST A BILLION DOLLARS SECY MORGENTHAU ANNOUNCED - INTEREST CHARGES ON THIS BALANCE ARE ABOUT 2 000 000 DLS A YEAR ACCORDING TO THE SECY WHO CHARACTERIZED IT AS -THE CHEAPEST KINE OF AN INSURANCE FUND FOR THE AMERICAN PEOPLE-

THE CASH AND REFUNDING OPERATIONS TO BE ANNOUNCED TUESDAY WILL BE CONDUCTED UNDER THE SAME RULES AND REGULATIONS AS APPLIED TO THE JUNE FINANCING THE SECY SAID

-0-

8.56

TREASURY TO BORROW 400 000 000 DLS IN

CASHH

WASHN - SECY MORGENTHAU ANNOUNCED THIS  
MORNING THAT IN ADDITION TO REFUNDING ITS  
30 15--

SEP 15 -574856 9 514 000 000 DLS THE  
TREASURY WILL ALSO BORROW 400 000 000  
DLS IN CASH IN ITS SEP FINANCING

--

SEP 15 MATURITY OF 514 000 000 DLS THE  
TREASURY WILL ALSO BORROW 400 000 000  
DLS IN CASH IN ITS SEP FINANCING

THE TOTAL OF NEW CASH AND REFUNDING  
WILL BE APPROXIMATELY 914 000 000 DLS

TWO FACTORS INFLUENCED THE  
TREASURY IN ITS DECISION TO BORROW CASH  
AT THIS TIME THE SECRETARY SAID - FIRST  
THE TREASURY WILL TAKE CARE OF THE CURRENT  
CASH NEEDS OF THE H O L C THUS FORESTALLING

INDEPENDENT BORROWING BY THAT AGENCY - SECOND COLLECTIONS OF THE -WINDFALL TAX- HAVE BEEN POSTPONED 90 DAYS THUS SLIGHTLY REDUCING PROSPECTIVE REVENUES IN THE IMMEDIATE FUTURE

THE SECY DECLINED TO INDICATE WHETHER THERE WOULD BE ANY FURTHER CASH BORROWING THIS QUARTER OR TO INDICATE THE TYPE OF SECURITY OR INTEREST RATE WHICH WILL BE OFFERED IN THE CURRENT FINANCING - FINAL DETAILS ON THE FINANCING WILL BE ANNOUNCED TUESDAY MORNING

THE SECY SAID THAT HE BELIEVED THE PRESENT CASH BORROWING WILL BE THE SMALLEST SINCE HE CAME TO THE TREASURY - THE 400 000 000 DLS BEING BORROWED IS A PART OF THE 750 000 000 DLS IN NET BORROWING OF CASH FOR THIS FISCAL YEEAR WHICH PRESIDENT ROOSEVELT FORECAST IN HIS BUDGET SUMMARY LAST WEDNESDAY SECY MORGENTHAU EXPLAINED

WCNS26

## ADD FINANCING (WCNS22)

TREASURY OFFICIALS EXPLAINED THAT THERE WAS NO CONFLICT BETWEEN THE PRESIDENT'S BUDGET STATEMENT THAT ABOUT \$1,100,000,000 WOULD BE USED DURING THE FISCAL YEAR TO MEET THE NEEDS OF THE GOVERNMENT AND MORGENTHAU'S STATEMENT TODAY THAT HE DID NOT INTEND TO TAP INTO THE BALANCE HEAVILY.

OFFICIALS SAID THAT OF THE \$1,100,000,000 ALLUDED TO BY THE PRESIDENT, \$800,000,000 HAS BEEN USED ALREADY.

THE PRESENT BALANCE IS SLIGHTLY MORE THAN \$1,000,000,000 BUT WILL BE CLOSTED BY THE \$400,000,000 IN NEW MONEY. THUS THE \$300,000,000 REMAINING DRAW-DOWN MAY BE TAKEN FROM THE BALANCE WITHOUT BRINGING IT BELOW THE \$1,000,000,000 FIGURE WHICH MORGENTHAU WISHES TO MAINTAIN.

9/3--JE921A

WCNS31

C O R R E C T I O N : --

IN (WCNS21), MORGENTHAU FINANCING STORY, MAKE 5TH PARAGRAPH READ X X  
BEARING LOWER INTEREST RATES, POSSIBLY OF 1-3/8 PER CENT. HOWEVER, THE  
TREASURY GAVE NO INDICATION WHAT THE DETAILS OF THE FINANCING WOULD  
ACTUALLY BE.

9/3--JE934A

WCNS32

ADD FINANCING(WCNS26)

EXPLAINING WHY IT COST ONLY \$2,000,000 TO MAINTAIN THE \$1,000,000,000 CASH BALANCE ANNUALLY, MORGENTHAU SAID THAT A LARGE PART OF THE SUM REPRESENTED BORROWING ON TREASURY BILLS. THESE BILLS COST ONLY A FRACTION OF ONE PER CENT INTEREST TO THE TREASURY.

9/3--JE941A

526  
UNITED PRESS - September 3, 1936.

WCNS46

ADD FINANCING

TREASURY OFFICIALS SAID THAT THE HOME OWNERS LOAN CORPORATION WAS NOT MAKING ANY NEW LOANS BUT THAT IT NEEDED FUNDS TO MEET MATURING OBLIGATIONS AND TO SUBSCRIBE TO STOCK IN NEW FEDERAL SAVINGS AND LOANS ASSOCIATIONS.

THEY SAID THE HOLC WOULD NEED ABOUT \$100,000,000 DURING THE NEXT 12 MONTHS FOR THE STOCK SUBSCRIPTIONS.

9/3--JE1031A

1822

ADD FINANCING (WCNS21)

ACTING BUDGET DIRECTOR BELL, WHO ATTENDED THE MORGENTHAU CONFERENCE, TOLD REPORTERS THAT THE TREASURY'S WORKING BALANCE HAD BEEN REDUCED BY \$800,000,000 SINCE THE FISCAL YEAR BEGAN JULY 1.

IN ADDITION, AN EXPECTED \$82,000,000 FROM THE WINDFALL TAX, WHICH WOULD HAVE BEEN PAYABLE SEPT. 15, WAS POSTPONED UNTIL DEC. 75, HE

MORGENTHAU POINTED OUT THAT THE TREASURY IS TAKING CARE ALSO OF THE FINANCIAL NEEDS OF THE HOME OWNERS LOAN CORPORATION SO THAT IT DOES NOT HAVE TO GO INTO THE MARKET FOR MONEY.

THESE FACTORS, MORGENTHAU EXPLAINED, LED TO THE DECISION TO SEEK THE NEW MONEY AT THIS TIME.

MORGENTHAU'S DECISION FOLLOWED HIS CONFERENCE YESTERDAY WITH MEMBERS OF THE FEDERAL RESERVE SYSTEM'S OPEN MARKET COMMITTEE, WHICH GUIDES THE FEDERAL BANKS INVESTMENT POLICIES. DEFINITE DETAILS OF THE REFUNDING OF THE \$14,000,000 WILL BE ANNOUNCED SEPT. 8, MORGENTHAU SAID.

5/3--JE909A

## ADD FINANCING (WCNS18)

SECRETARY MORGENTHAU SAID THE NEW BORROWING WAS THE SMALLEST CASH OFFERING SINCE HE CAME INTO OFFICE. - HE PROMISED THAT THE TREASURY'S NET BORROWINGS WOULD NOT EXCEED \$750,000,000 FOR THE ENTIRE FISCAL YEAR AS OUTLINED BY PRESIDENT ROOSEVELT IN HIS REVISED BUDGET ESTIMATE OF YESTERDAY.

MORGENTHAU SAID THAT BECAUSE OF UNSETTLED EUROPEAN CONDITIONS, HE THOUGHT THAT IT WOULD BE UNWISE TO DIP INTO THE TREASURY'S WORKING BALANCE OF AROUND \$1,000,000,000 TO MEET PRESENT FINANCING NEEDS.

"WE WANT TO KEEP OUR BALANCE AT ABOUT ITS PRESENT LEVEL IN THESE TIMES WITH CONDITIONS AS THEY ARE ABROAD," MORGENTHAU SAID. "IT IS A VERY DESIRABLE THING TO DO. THIS BALANCE COSTS US ONLY ABOUT \$2,000,000 A YEAR TO MAINTAIN AND IS THE CHEAPEST AND SAFEST INSURANCE THE AMERICAN PEOPLE CAN HAVE."

IT WAS INDICATED THAT THE \$514,000,000 OF 1-1/2 PER CENT NOTES MATURING SEPT. 15 WILL BE EXCHANGED FOR NEW NOTES, BEARING MORE INTEREST RATES, POSSIBLY OF 1-3/8 PER CENT.

9/3--JES06A

September 3, 1938

Mr. Levy, of Salamon Bros. & Hutzler, came in at 3:30. He said he thought we could sell a 58-61. He was very bullish. Said we had nothing to worry about. Thought the move we made an excellent one.

Levy was extremely nervous. I asked Burgess whether he was usually nervous and Burgess replied, "Only when he sees the Secretary of the Treasury."

Thursday  
September 3, 1936  
4:00 p.m.

H.M.Jr: Hello.

Operator: Dr. Burgess.

Burgess: Oh, hello, sir - how did you make out with Ben Levy?

H.M.Jr: Well, what happened today?

B: Oh, we had a good day. Prices were a little uncertain right at the opening.

H.M.Jr: Yes.

B: - and then they steadied out but they have been very good all day and some of them reached new high levels.

H.M.Jr: I've just had Levy here.

B: How do you like him?

H.M.Jr: All right -

B: A nice fellow, isn't he?

H.M.Jr: Is he always so nervous?

B: Was he nervous?

H.M.Jr: Awfully nervous -

B: (Laughs) No, he isn't usually nervous.

H.M.Jr: Yes.

B: Well, it's a big occasion - anybody who comes to see you ought to be nervous.

H.M.Jr: Now, now, now, now, now -

B: (Laughs)

H.M.Jr: I can't have my leg pulled more than once a week.

B: (Laughs) - he's a good fellow though, and he's got an awfully good nose for the market.

H.M.Jr: Well, do you know what he said?

- 2 -

- B: No, what did he say?
- H.M.Jr: Fifty-eight sixty-one -
- B: Well, that's a pretty good bond.
- H.M.Jr: What?
- B: That's a pretty good bond.
- H.M.Jr: I told him - I said that the fellows in Wall Street were just too bullish for me.
- B: (Laughs)
- H.M.Jr: I said, 'I can't keep up with them'.
- B: (Laughs)
- H.M.Jr: - I can't keep up with them.
- B: Well, I - I'm just as bullish as I was last night.
- H.M.Jr: You are?
- B: Yes - well, here are these corporate bonds coming out, twenty-five and thirty years - twenty years - and selling on a basis that you make allowance for a reasonable tax exemption - just as low basis as your Governments -
- H.M.Jr: Yes.
- B: And the maturity there doesn't seem to make any difference, whether it was twenty-five or thirty years and so forth. The peoples' minds are changing a little bit about this maturity business.
- H.M.Jr: Yes.
- B: They don't care so much -
- H.M.Jr: Any criticisms you've picked up?
- B: No, no - no, we had a little discussion about - about the budget informally here.
- H.M.Jr: Yes.
- B: And I think people recognize that that's a fair statement.

H.M.Jr: Yes.

B: I think most of them do.

H.M.Jr: Of course Levy says they realize now they're not going to be many more bonds.

B: Yes, this is the first time they've got that - that idea really.

H.M.Jr: Yes - what do the - what do the bond dealers hear from out of town?

B: Everything all right.

H.M.Jr: Yes.

B: Everything favorable -

H.M.Jr: Have you seen the press today?

B: No, I didn't see them; Straus saw them today.

H.M.Jr: Oh - but - have you seen the evening New York papers?

B: Yes, I've seen one of them.

H.M.Jr: Do they say anything about this?

B: No, no - I didn't see anything - I haven't examined it carefully yet.

H.M.Jr: Yes - The Washington Star carried a big headline: - 'Morgenthau needs a billion dollars on account of European situation'.

B: No?

H.M.Jr: Yes.

B: (Laughs)

H.M.Jr: Well, that's all right.

B: Yes.

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

B: Why, sure, yes - it must have been what kept the bad news out.

H.M.Jr: Yes.

B: - If there is any.

H.M.Jr: Well, what we try to do is to give them everything we've got.

B: The - the franc was a little weaker towards the end of the day.

H.M.Jr: Was it?

B: But the Governments were stronger toward the end of the day.

H.M.Jr: Yes - well, personally I was simply astonished the way the market behaved.

B: Yes.

H.M.Jr: Yes.

B: Yes - I was too. I thought it would have some reaction - that much.

H.M.Jr: Yes - it must be terrifically strong.

B: Yes. Yes.

H.M.Jr: Levy said he bought five million from some insurance company today and before the day was over he had sold out four of them at a profit.

B: Is that so?

H.M.Jr: Yes.

B: Well, that's a good sample.

H.M.Jr: Yes - well, we'll see what tomorrow has for us.

B: All right. - Say, that matter you discussed with me. I think that something can be worked out on that. Let me work on it a little and -

H.M.Jr: All right.

B: We'll see what we can do.

H.M.Jr: All right.

B: I think it can be done.

H.M.Jr: Thank you very much.

B: First rate.

H.M.Jr: Goodbye.

B: Goodbye.

September 3, 1936

The Secretary met with Mr. Mills and Mr. Tripp of the two Discount Corporations at his home last night.

They said that a 2 1/2 percent 47-50 bond would be a tremendous success. The banks would gobble it up, but they have two objections to it. (1) that it would come due at a time when we have a lot of other securities coming due and (2) if I got out an 11-year security at 2 1/2 per cent I would be accused of doing it for political motives. They favored a 2-3/4 per cent bond making it as long as the market would permit. Mr. Mills, President of the Discount Corporation, felt that he would like to see it less than 20 years. He told me that one of the biggest insurance companies, which had recently been a big buer of Governments, had decided to stay out of the market entirely until after election. I asked him if he thought many other institutions would do the same thing and he said, 'Positively no. You will meet the heads of these institutions at lunch and they will damn the Administration up and down hill and then a bond issue comes out and their pocketbooks will come first and their only kick will be that they will not get a large enough allotment.' He repeated, 'Don't worry; the pocketbook influences these men first.' And then he said, 'If you met them at dinner after they have invested their \$10,000,000 in Governments, they will start all over again damning the Administration'. The man who is talking is a Republican, I take it for granted.

To sum up, the two men felt that a 2-3/4 per cent, somewhere between 18 and 20 years, would go well. They both were delighted that we were going to ask for new money. They said they thought it took real political courage to do so at this time and that it was good politics to do it.

# TREASURY DEPARTMENT

56

INTER OFFICE COMMUNICATION

DATE September 3, 1936

TO Secretary Morgenthau  
FROM Herman Oliphant

When Edward L. Bernays telephoned me for an appointment for the Philco people, he said they wanted to talk about the activity of Treasury investigators among their retail outlets which was injuring their business.

Irey's report to you on the Philco companies boils down to this: What they pay to R. C. A. on licenses to manufacture radios depends upon the price at which they sell radios, and the Federal excise tax on radios is 5 per cent of the selling price. There is, therefore, the problem of preventing the Treasury from being R.C.A.'s catspaw.

Prior to July 1934 the Philco Radio Corporation and the Philadelphia Storage Battery Company had practically the same officers, common records, etc. A reorganization was effected disassociating the two companies so far as officers and records were concerned but otherwise leaving them for all business purposes apparently one concern. They maintain that they should pay taxes and pay royalties on the price at which the Philadelphia Storage Battery Company sells radio sets to the Philco Radio Corporation rather than on the price at which such sets are resold by Philco Radio Corporation.

Investigations by two Revenue agents of the Miscellaneous Tax Unit and by Special Agent Wrigley resulted in a recommendation of an assessment of additional taxes of over \$1,000,000. These investigations did not obtain all the records necessary to arrive at an absolute figure. The officers

- 2 -

of the Philadelphia Storage Battery Company were evasive in their statements, at times gave incorrect information, and failed to make available records permitting a full comparison of their record of sales and their excise tax returns.

An investigation of their income tax returns for the same period has now been ordered.

*Lawrence C. ...*

September 1, 1936.

SI-12852-F  
GB:MEW

Memorandum for Mr. Ireys:

In re: Philadelphia Storage Battery Company,  
Philco Radio and Television Corporation,  
Philadelphia, Pennsylvania.

The attached memorandum of Special Agent Wrigley dated August 28 sets forth very clearly the situation concerning the investigation which has been made with respect to excise tax liability of the Philadelphia Storage Battery Company. The memorandum comprises eight pages and it would be difficult to set forth the facts in the case in anything briefer. However, it may be stated that the main point in the case concerns the basis on which P. S. B. proposes to pay excise taxes and royalties to R. C. A. The original license agreement between R. C. A. and P. S. B. provide for the payment of royalties on the P. S. B. invoice price. In order to insure full royalty payments the agreement provided that in the event radios or other apparatus should be sold to corporations in which P. S. B. or its stockholders held a controlling interest deductions or adjustments made by P. S. B. in fixing invoice prices should be disregarded in determining the amount of royalties to be paid.

There was no trouble with respect to royalty and excise tax payments prior to the "reorganization" of July, 1934, although some of the transactions of P. S. B. which occurred just prior to and subsequent to the passage of the 1932 tax law are considered questionable. This statement refers to the practice of P. S. B. and other manufacturers who, in anticipation of the excise tax law of 1932, entered into contracts under which their entire stocks of merchandise were sold to selling agencies for the sole purpose of avoiding excise taxes on the stock on hand when the excise tax law took effect. The practice was followed by the large tire dealers and others.

Prior to the reorganization of July, 1934 the Philco Radio and Television Corporation hereafter referred to as P. R. T., had practically the same officers and directors as did P. S. B.

SI-12852-F  
GB:MHV

However, after July, 1934 the officers of P. R. T. disassociated themselves from P. S. B. but it should be kept in mind that the P. R. T. officers were the same ones who were formerly officers of P. S. B. As a result of the reorganization P. S. B. maintained that their selling price upon which royalties and excise taxes should be based is the price at which they sell radios to P. R. T., which price is very low as compared with the price at which radios are sold to the trade.

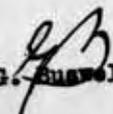
P. S. B. and P. R. T. for all business purposes appear to be one concern. Their offices and manufacturing plant have never been changed and the business is conducted as it always has been with the exception of segregation of records. Furthermore, Mr. Skinner president of P. S. B. appears to have complete control of the directing of policies of the Philco organization and during a hearing before the N. R. A. in 1935 made the claim that the affiliates were subsidiaries operating as wholesalers and not as separate corporations.

The entrance of this Unit into the case resulted from a conference had in the Miscellaneous Tax Unit on October 29, 1935. At that conference Mr. Robert D. O'Callaghan, Assistant General Counsel of R. C. A. presented a statement concerning a suit brought by R. C. A. for revocation or cancellation of the license given to P. S. B. The point involved was that heretofore mentioned, i. e. that because of the reorganization of July 1934 R. C. A. was being paid royalties on the comparatively small price of radios furnished P. R. T. by P. S. B. R. C. A. apparently had in mind that if the investigation being conducted by R. C. A. should disclose that the reorganization of Philco in 1934 was for the purpose of illegally avoiding royalties it would necessarily show that excise taxes were being avoided also. Furthermore, it may be inferred that any action by the Government looking to the establishment of an excise tax basis which would be the same as the basis which R. C. A. was claiming would be helpful to R. C. A. Summing up the whole matter the inference is that the 1934 reorganization of Philco was merely for the purpose of affording a means for avoiding the payment of royalties and ~~all~~ excise taxes by P. S. B.

Special Agent Wrigley refers to the excise tax investigation which has resulted in a recommendation for assessment of additional taxes of over \$1,000,000. The examination was made by two revenue

SI-12852-F  
CB:MHW

agents connected with the Miscellaneous Tax Unit on the one hand and by Special Agent Wrigley on the other. The examinations were made from different angles but it is the concensus of opinion that the figure arrived at is approximately correct. It may be stated, however, that the excise tax investigations did not result in obtaining all the records necessary to arrive at an absolute figure. The officers of P. S. B. were evasive in their statements and at times gave incorrect information and they also failed to make available records which would permit the reconciliation of sales as reported on their income tax returns. An investigation of the income tax returns covering the period involved in the proposed assessment of over \$1,000,000 is now under way, or will be begun within a short time, and it is expected that that investigation will disclose attempts to avoid if not evade payment of proper taxes.

  
G. Sugrue



INTELLIGENCE UNIT

Philadelphia  
(Name of Division)

SI-12852-F  
EJW-G

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TREASURY DEPARTMENT  
INTERNAL REVENUE SERVICE



Philadelphia, Pa., August 29, 1936.



Report Examined, Approved and Forwarded to Chief, Intelligence Unit

AUG 29 1936

*Arthur W. Nichols*  
Special Agent in Charge  
Philadelphia Division

Chief, Intelligence Unit,  
Bureau of Internal Revenue,  
Washington, D. C.

In re: Philadelphia Storage  
Battery Company,  
Philadelphia, Pa.

In accordance with telephonic request made under date of August 27, 1936, there is forwarded herewith a memorandum relating to the investigation of the excise tax liabilities of the taxpayer above named.

*Edmund J. Wrigley*  
Edmund J. Wrigley  
Special Agent

August 28, 1936.

SI-19852-F



Memorandum re: Excise Taxes under Title IV, Revenue Act of 1932.

on sales by Philadelphia Storage Battery Company

See: Sec. 606(c), R.A. 1932 of Parts and Accessories for Automobiles  
 (Batteries and Radios) @ 2%  
 See: Sec. 607 R.A. 1932 and (Home) Radio Receiving Sets, etc., @ 5%

During two periods:

First Period: June, 1932 to July, 1934

Second Period: August, 1934 to December, 1935

See: Sec. 619(b), R.A. 1932, as to the basis of tax (fair market price) on sales not at arm's length and at less than fair market price.

See: Sec. 3176, R.S., as amended, for ad valorem penalty of 50% applicable in case a false or fraudulent return is wilfully made.

The taxpayer is Philadelphia Storage Battery Company, (referred to hereafter as P.S.B.) a corporation of Pennsylvania, organized in 1892, with a capital of \$100,000. By April, 1932, increases in capital stock had brought the authorized capital to \$9,000,000.00. Those increases were due for the most part to stock dividends and bonus stock issued. The stock is closely held, control of the common stock being exercised through "pooling agreements", required of shareholders, by which the stock is to be repurchased by the corporate interests at a fixed price of \$110.00 and sale to other persons is not permitted.

In November, 1930, before the establishment of excise taxes on radio receiving sets was under discussion, P.S.B. acquired control of Transitone Automobile Radio Corporation, (referred to hereafter as TARCO), a Delaware corporation. It has been explained that production of home radios is seasonal and production of automobile radios would occur during the slack season in home radio production and in this way year round activity might be promoted.

At that time, in November, 1930, a contract was entered into between P.S.B. and TARCO providing for manufacture of automobile radio sets by P.S.B.; sale of those sets to TARCO at cost (without profit); promotion by P.S.B. of ultimate sale of those sets for TARCO; advertising by P.S.B. of TARCO sets in regular P.S.B. advertising and in P.S.B. national radio broadcasting, etc. That contract was for a term until September 30, 1934, and thereafter from year to year. That agreement could not be amended on the part of TARCO except upon the vote of all the directors of TARCO except one.

That agreement of November, 1930, provided that P.S.B. cost of TARCO sets, to be borne by TARCO, was to be computed as follows:

- (a) direct cost of material and labor;
- (b) that portion of overhead expense that is fairly attributable to the manufacture of TARCO sets including the fairly applicable portion of general office expense;
- (c) The amount of all royalties which shall be payable with respect to the manufacture of sale of TARCO sets.

P.S.B. originally obtained the right to manufacture and sell radios by a license from Radio Corporation of America which with its supplements defines licensed apparatus as that which shall comprise at least a chassis and loud speaker advertised as a complete apparatus and salable to the using public as such. Under this license P.S.B. agreed to pay royalties to R.C.A. on the licensee's invoice price.

This "licensee's invoice price" would be comparable with the "price for which . . . sold" on which excise tax is imposed under the several sections, 606(c) and 607 of the Revenue Act of 1932. The license went further and provided that . . .

"In order to insure . . . the full royalty payments contemplated hereunder, the Licensee covenants that, in the event that any apparatus licensed hereunder shall be sold to a corporation, . . . in which the Licensee or its stockholders shall own a controlling interest by stock ownership, or otherwise, any deduction or adjustment made by the Licensee in fixing the invoice price in respect of such apparatus, by reason of such control, shall be disregarded in determining the royalties to be paid hereunder in respect of such apparatus."

This clause is referred to as a "wash sales provision" of the license and would be comparable with the provisions of Sec. 619(b), R. A. 1932, when an article is sold at less than arm's length and less than fair market value. Under these provisions P.S.B. reported and paid royalties on the final sales prices to the trade and this continued until the "reorganization" of July, 1934.

The business transactions of P.S.B., prior to the time that the Revenue Act of 1932, as it related to excise tax on P.S.B. products, was under consideration, are not now questioned but the transactions of P.S.B. which occurred just prior to and subsequent to the passage of the Revenue Act of 1932 are considered to be highly questionable in respect to tax liabilities under that Act.

Prior to the time that consideration was being given to the Revenue Act of 1932, P.S.B., in addition to owning control of TARCO, owned the stock of J. S. Timmons, Inc., a corporation that had manufactured radio speakers and cabinets. P.S.B. also owned several subsidiaries that acted as sales outlets in New York, Texas, Canada and Great Britain.

In anticipation of the passage of the Revenue Act of 1932, P.S.B. on April 23, 1932, caused Philco Radio and Television Corporation, (referred to hereafter as P.R.T.) to be incorporated in Delaware as a wholly owned subsidiary. The purpose for which P.R.T. was created was to act as a sales corporation of the taxpayer.

On April 29, 1932, P.S.B. entered into separate agreements with P.R.T. for:

Transfer to P.R.T. of selling business  
 Sale to P.R.T. of Storage Batteries and  
 Parts and Accessories therefor.

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Sale to P.R.T. of Chassis  
 Sale to P.R.T. of Tubes, Cabinets and Speakers  
 Sale to P.R.T. of Cabinet Parts  
 Assembly by P.S.B. of Radio Receiving Sets

The separate contracts provided for sales of radio parts (chassis, alone) such as were not permitted under the terms of the R.C.A. license. The sale price fixed by the contracts covering batteries and radio parts was "the total manufacturing cost . . . plus five percentum."

Cost of products manufactured by P.S.B. under these agreements was to be computed as follows:

The direct cost of labor  
 The cost of material  
 The handling, inspection and storage of the same  
 That portion of the factory overhead that is fairly attributable to the manufacture of the products sold to P.R.T.  
 All excise taxes assessed with respect to the products sold to P.R.T.

Cost of products (cabinets, tubes and cabinet parts) purchased by P.S.B. and sold to P.R.T. was to be computed as follows:

Total cost to P.S.B., plus five percentum thereof, such cost to be computed from the actual purchase price paid by P.S.B., plus the cost of handling, inspection and storage, etc.

The products on hand and in process as of May 1, 1932, were invoiced to P.R.T. by P.S.B. in a volume out of proportion to usual and ordinary business requirements, this having been done as of June 20, 1932, the day before the effective date of the Revenue Act of 1932, according to Mr. William R. Wilson, representative of P.S.B., in anticipation of the excise tax provisions contained in the act.

Similar contracts had been entered into between P.S.B. and its wholly owned subsidiary, J. S. Timmons, Inc., for the purchase by P.S.B. of speakers and cabinets from J.S.T., Inc., at the total

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manufacturing cost to J.S.T. Inc., plus  $2\frac{1}{2}$  percentum on speakers and 5 percentum on cabinets. The contracts with Timmons, however, were mere pieces of paper by which an artificial sales value for excise tax purposes was created. Actually, during the period that the J.S.T. Inc., contracts were effective, P.S.B. manufactured the speakers and cabinets alleged to have been manufactured by J.S.T. Inc., then P.S.B. invoiced the cost of such manufacture to J.S.T. Inc., as material, labor and expense and J.S.T. Inc., in turn, invoiced the finished products back to P.S.B.

J.S.T. Inc. filed excise tax returns on the basis of the artificial sales values created by P.S.B. Proof of the fact that P.S.B. manufactured the speakers and cabinets can be shown from the cost accounts of P.S.B. maintained for operation of Department 76 and Department 92. Timmons used no raw materials, maintained no inventories thereof and had no residue of any kind from manufacture.

During the whole period from June, 1932 to July 1934, the provisions of the license as to royalties being payable on "wash sales" were recognized and P.S.B. reported to R.C.A. the sales values of P.R.T. However, during the same period, for excise tax purposes, P.S.B. used the tentative sales values which were billed to P.R.T. monthly on the basis of artificial cost.

The system used by P.S.B. does not permit the determination of the actual monthly costs such as should be used if the contracts with P.R.T. and other affiliated companies were at arm's length. Under the system used actual monthly costs are not shown and can not readily be determined. Actual costs for any one of the component parts contracted to be sold to P.R.T. have not been determined by P.S.B. for any month or for any other period.

The contract of P.S.B. with TARCO is believed to have an important bearing on the excise tax questions relating to P.S.B. when comparison of that contract is made with the contracts of P.S.B., with J.S.T. Inc., and P.R.T.

In using costs as the base for sales values to both TARCO and P.R.T., after April 29, 1932, P.S.B. disregarded the TARCO contract of November, 1930, which provides that royalties are to be included in cost and provides also that general office overhead is to be included in costs and uses for excise tax purposes not the true and complete costs of production but estimated or standard costs that did not include royalties or certain administrative expenses. These

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and similar items were invoiced to P.R.T. as independent transactions the values of which were not included in the excise tax base.

The secretary of P.S.B., Mr. Peyton, when interviewed in respect to royalties having been by-passed around costs used in excise tax computations, contended that royalties were included in such computations and that it was wholly inaccurate to say that royalties had been eliminated therefrom. Mr. Peyton was positive in his declaration of the principle and practice involved but upon inquiry made by him he found that royalties had not been treated as he, himself, insisted they should be handled.

If royalties are properly to be included in costs under the TARCO contract, and it is so provided therein, their elimination from the sales price appears to have been a fraudulent reduction by P.S.B. of even the limited or restricted artificial sales value that P.S.B. attempted to establish by the contracts of April 29, 1932.

As stated heretofore, P.S.B. reported, as its own, the P.R.T. sales prices for royalties while it was using the artificial values for excise taxes. The artificial sales values used for excise taxes have not been reconciled with sales per income tax returns due to the resistance of P.S.B. and its failure to produce records which should make such a reconciliation possible. Due to the inaccurate information which was offered by representatives of P.S.B. as to records, transactions, etc., a communication in writing was addressed to P.S.B. in which it was requested that records and data provided for under the TARCO contract be made available for the purpose of ascertaining the correctness of the excise tax returns. The evasive attitude of the taxpayer is demonstrated by their reply and their failure to make available records which would permit the reconciliation of gross sales, per income tax returns, with gross sales, per excise tax returns and, also the reconciliation of cost of goods sold, per income tax return, with cost of goods sold, per excise tax returns.

As to the second period, from August 1934 to December 1935, P.S.B. approached their licensor, R.C.A., and suggested that R.C.A. approve a revised corporate set-up which would permit P.S.B. to reduce excise taxes and royalties and would serve also to make unassailable by the government, the position of P.S.B. in relation to the base for excise tax computations.

R.C.A. declined to give approval to the proposed revision and during July, 1934, P.S.B. brought about a revision in the corporate structure by which P.S.B. was divested of stock ownership in P.R.T. and subsequent to the effective date of the so-called reorganization, July 29, 1934, P.S.B. reported and paid royalties to R.C.A. on the artificial sales values represented by "manufacturing costs" as a base. The contracts of April 29, 1932, were superseded by a sales and assembling agreement between P.S.B. and P.R.T. through which control of P.R.T. is exercised.

The work of assembly of the radio sets had been transferred to P.R.T. and the cost of such work was eliminated from the royalty and excise tax bases. The license agreement with R.C.A. was non-transferable and could not be divided and shared. R.C.A., during April 1935, forwarded a notice to P.S.B. which represented the initial step in cancellation by R.C.A. of the license and P.S.B. commenced suit in the State of Delaware to restrain R.C.A., by injunction, from cancelling the license agreement. P.S.B. recognized the possibility of the assembling work by P.R.T. being not in accordance with the license agreement and commenced assembling the radios and making delivery of the complete sets to P.R.T.

The claims of the Licensor, R.C.A., as to royalties and the base to be used for their computation are comparable with the claims of the government for excise taxes on the basis of fair market price but no decision in that case of P.S.B.-R.C.A. has been had as yet, the trial date being set at this time for September 15, 1936.

It is believed that the corporate structure of P.S.B. and its affiliates has chameleon like qualities that are maintained for the benefit of P.S.B. and the small group in control thereof as opposed to government, rights under contracts and other interests. In respect to the government as a whole, Mr. Skinner, President of P.S.B., claimed in NRA proceedings that the affiliates were subsidiaries, operating as wholesalers . . . not separate corporations. During 1932 and 1933 consolidated income tax returns were filed but as to excise taxes it is contended that separate corporations exist at arm's length and sales values which do not include the actual or economic cost of manufacture are proper values on which excise taxes should be computed.

The deficiency in excise taxes shown by the examining officers for the whole period June, 1932 to December, 1935, was \$1,076,316.12 and it has been recommended that those deficiencies be assessed.

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In addition, recommendation has been made that the advalorem penalty of fifty per cent. be assessed on the full amount of tax for each of the months for which a deficiency in excise taxes is now determined to be due. Such a penalty would apply to the total tax for each of those months and would, in itself, amount to more than the deficiency above mentioned. It is believed that the application of such a penalty could be sustained by the government.

Successful prosecution of the group involved herein would be dependent on the statements of the officers and representatives together with the records of the several related corporations and it is believed that before prosecution is attempted the various officers and representatives should be examined before a Grand Jury and their statements as to the double positions assumed by the corporations should be recorded.

*Edmund J. Wrigley*

Edmund J. Wrigley  
Special Agent

( CG )

00- 65  
800  
815

70

5 September 1936.

The Honorable,  
The Secretary of the Navy,  
Washington, D.C.

My dear Mr. Secretary:

With reference to the temporary transfer to the Navy of the Coast Guard radio stations at Winthrop, Massachusetts; New London, Connecticut; and Rockaway, New York, with their apparatus and equipment complete, the trial period of two years having expired, it is requested that these stations, with their apparatus and equipment, be returned to the Coast Guard on or before 15 September 1936.

I have given careful thought and study to the plan of operation of these stations and, as a matter of policy, I am convinced that these stations should be returned to their former status under the jurisdiction of the Coast Guard.

Very sincerely yours,

Secretary of the Treasury.

RRW / cab

*RRW*

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Friday  
September 4, 1936  
9:15 a. m.

Fred Sexauer: - just when I want something, you know.

HMjr: I know that.

S: (Laughs) Well, I've tried to reach you several times, Henry, but you've been awfully busy of late.

HMjr: Yes

S: And I haven't been down in Washington very much. Say, Henry, the thing that I wanted to talk to you about, I won't take but a moment of your time, is a situation down there that affects New York State.

HMjr: Yes

S: It's on disease control.

HMjr: On the which?

S: On disease control -

HMjr: Disease control?

S: - Bovine disease control.

HMjr: Yes

S: You remember the program that you and Bill Myers were so much interested in several years ago.

HMjr: T. B. or

S: Well, this is - this is mastitis.

HMjr: Oh yes -

S: Now, the of the situation seems to be pretty well O. K. and of course T. B. is pretty well cleared up.

HMjr: Yes

S: But we have in this territory, as you know, quite a problem with mastitis. The Boards of Health are extraneously condemning their cows for mastitis. And it's about - one of the most serious situations that we have here in the Northeast.

HMjr: Yes

S: A year or two ago we got a Federal appropriation of a million dollars and that created a lot of favorable comment up here and was very helpful. Now, my understanding is that the situation at present is that the Dairy section of the Triple A is favorable to a mastitis appropriation. But the Bureau of Animal Industry is opposed to it and it's up to Wallace for O. K. and Wallace has not taken any position but to appear somewhat opposed to it. Now this is pretty important to the Dairy industry in the Northeast because here is where most of the cattle are condemned for mastitis. And we wondered if something - if there wasn't something you could do on this to help us get this thing pushed through.

HMjr: Well, I mean, where are they going to get the money from?

S: They have an appropriation - it's included in their appropriation - that is it should be included in the appropriation.

HMjr: Yes

S: It's in the recommendation.

HMjr: Well, you mean for the next year's budget?

S: Yes

HMjr: Oh, my heavens!

S: (Laughs) Well, it's a million dollars, Henry, They've got eighteen million in there for bangs -

HMjr: Yes

S: And the way the thing has always been set up, we haven't been able to utilize the bank money to any set degree as the - as the fellows in Washington have been able to. I think that we've got about five per cent here in this place as against twenty per cent in the West. We just simply haven't been able to put the program across here because cattle are so much more valuable here.

HMjr: Well, have you been down to see the people?

S: No, but one of our men has, yes. Leon Shaeffer is on the Dairy Committee on Disease Control.

HMjr: Yes

S: And he has worked on this thing consistently and he says that it simply can't be moved until some other pressure than that which has already been put on is put on the Bureau of Animal Industry.

HMjr: Well, the next time I see Wallace I'll mention it to him.

S: How's that?

HMjr: I'll mention it to Henry Wallace the next time I see him.

S: I wish you'd do that, Henry, because it's very important all through this section. There is a great deal of resentment over the mastitis situation.

HMjr: Yes

S: And I think a lot of credit could be obtained by putting through this three million dollar appropriation.

HMjr: Clean up the mastitis and vote for Roosevelt, huh?

S: That's the stuff.

HMjr: All right.

S: (Laughs) - I want to see you the next time I get down, Henry.

HMjr: All right, we'll see what we can do. (Laughs)

S: (Laughs) It means that that<sup>is</sup> part of the program -

HMjr: (Laughs) All right

S: All right, Henry, thanks a lot.

HMjr: Goodbye.

September 4, 1936

Called Lochhead last night. I could not understand why he had not brought to my attention the cable that France wants to send over \$100,000,000 gold. The cable had come after Lochhead had left. I told him to get busy at once.

Friday  
September 4, 1936  
12:24 p. m.

HMjr: Mr. Cochran, Paris, Diplomatic channel. I either  
 want him in the next twenty minutes or - then I'll  
 let - or else after half past two, see?

Operator: All right

HMjr: Either in the next twenty minutes or -

Operator: All right, I'll call him right away.

HMjr: Yes

September 4, 1936

Viner, Lochhead, Haas, White and Oliphant came in to discuss the cable received from the American Embassy transmitting an inquiry from Cariguel whether the Bank of France could ship \$100,000,000 of gold to the Federal Reserve Bank of New York to be ear-marked for their account. (Copy of this cable, marked No. 1, is attached.) They also wished to know whether it would be necessary to have a separate license for each shipment of gold into the country and whether there would be any delays in obtaining licenses for the re-export of this gold if they so desired. They also asked if we would give them assurances that if the franc should be devalued or should leave the gold standard, would there be any differences in procedure.

It was pointed out at this meeting that the Federal Reserve Bank have been granted a general license to hold gold under ear-mark for foreign central banks and, therefore, this could be treated as a routine transaction, the details to be discussed between the Bank of France and the Federal Reserve Bank of New York. As far as the Treasury giving assurance that there would be no change in this procedure at any future date under varied circumstances, Mr. Oliphant stated that there was no law covering the ear-marking of gold and that we must treat it as a sacred thing. It was decided to send the following cable:

"For Cochran from Secretary of the Treasury, No. 335.

With regard to the transactions involved in the inquiry of September 3 from Cariguel, and the inquiry of September 4 from Governor Rooth, earmarking is covered by the general license issued to the Federal Reserve Bank of New York, under date of March 23, 1934. It is suggested that the Bank of France and Bank of Sweden discuss details with the Federal Reserve Bank of New York directly."

In the meantime, a second cable had been received from Cochran, in which he advised receipt of a letter from the Governor of the Central Bank of Sweden asking practically the same questions as had been brought up by the Bank of France regarding the ear-marking of gold. (Copy marked No. 2 attached.)

Secretary Morgenthau then called Cochran and the following is a transcript of their conversation:

*Want original 75B*  
*#1.*

**PARAPHRASE OF TELEGRAM RECEIVED**

**FROM:** American Embassy, Paris  
**DATE:** September 3, 1936  
**NO.:** 836.

I was called to the Bank of France this evening by Cariguel, who informed me that it was the opinion of Governor Labeyre and some of the new regents that in case of necessity the Bank of France itself should be in a position to operate in dollars. Cariguel informed them that in case this is desired, the Bank of France should at once begin to build up a gold supply in New York by shipping metal to the Federal Reserve Bank from Paris to be held under earmark in New York. \$100,000,000 should be the minimum amount, Cariguel suggested.

I was told by Cariguel that a few months ago when the \$15,000,000 of gold now held under earmark with the Federal Reserve Bank was shipped to New York by the Bank of France, no inquiries had been made as to whether or not it would be possible to withdraw such gold to Paris or with regard to other formalities concerning its disposition. However, the bank wishes to be definitely informed in the premises before deciding on the question of building up a considerably more important stock. In  
case

-2-

case the Bank of France should wish to withdraw from the United States gold which had been shipped there and placed under earmark with the Federal Reserve Bank in New York, what formalities would be involved? Would it be necessary to secure a license for every shipment from New York? Would it be possible for the Treasury to assure the Bank of France that there would be no delay or license fee in issuing any licenses that may be required? If the franc should be devalued or should leave the gold standard, would there be any differences in procedure? Such information as the Treasury may permit me to pass on to the bank would be appreciated, since the Bank of France desires to reach an early decision with regard to this matter. It is my understanding, of course, that this is strictly confidential.

It is my personal opinion that it is advisable to encourage and to help France in (?) a reserve of this kind in the United States. Such a reserve would be very important if a crisis in the franc arises and private banks cannot cope with the situation; it might obviate, at least temporarily, the need for appealing directly to us for help. The point involved was not discussed at the bank and this is merely a personal opinion.

Gariguel

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Cariguel said, in reply to an inquiry from me, that the British had now withdrawn from the Bank of France approximately two thirds of the gold held under earmark there.

The exchange market, he said, had not been good today. He also said that some gold had been lost to England, which is the first gold that has been so lost for some time. It amounted to something over 20,000,000 francs. It was thought by some observers that the circular of the Minister of Finance, quoted in my 824, September 3, 5 p.m., was the cause of the slight upset in exchange today. That is, French holders have been disposing of American and other securities which are not quoted on the Paris bourse and have been acquiring either securities quoted on the Paris bourse or securities quoted on London which could quickly be repatriated.

WILSON

EA:EB

Friday  
September 4, 1936  
2:55 p. m.

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HMjr: Hello

Operator: All right

HMjr: Yes

Operator: Go ahead

HMjr: Hello

H. M.  
Cochran: Hello, Mr. Morgenthau

HMjr: Hello, how are you?

C: Fine, thank you

HMjr: Now, we have from you a couple of cables in regard to two countries -

C: Yes, yes

HMjr: And I just wanted to say that we're sending a formal answer referring their inquiries to the Federal Reserve Bank, see?

C: I see.

HMjr: Hello?

C: Yes

HMjr: But I wanted to let you know that when they do refer their inquiries as far as earmarking goes - hello?

C: Yes

HMjr: - it'll be all right.

C: I see.

HMjr: But I didn't want to put that in the cable. You'll get a cable any - it may come in there any time. Hello? - hello?

C: Hello

HMjr: Did you get it?

C: No - I didn't get that point.

HMjr: Well - a cable has been sent to you -  
C: Yes  
HMjr: - which you'll get, referring these two inquiries to the Federal Reserve of New York.  
C: Yes  
HMjr: But I wanted to tell you that if they do refer them it'll be all right.  
C: I see. These people should apply directly there?  
HMjr: That's the idea.  
C: I see.  
HMjr: See?  
C: Yes  
HMjr: But - they'll get a favorable reply as long as it's limited to the one thing.  
C: As long as it's limited to the earmarked gold?  
HMjr: That's right.  
C:  
HMjr: Now, don't ask anything more, just - I mean I want to be careful on this phone.  
C: I see - I see.  
HMjr: But I wanted to tell you that you can tell them it'll be all right.  
C: I see.  
HMjr: See?  
C: If they do make application there?  
HMjr: That's the question.  
C: Fine, fine  
HMjr: See?  
C: Yes

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HMjr: And I didn't want - but they should go through the regular channels.

C: They didn't know - I mean they've had things up before and they didn't know whether they could come through us or go direct -

HMjr: Well, they had asked something else before, you know?

C: Oh yes, yes

HMjr: You know what I mean?

C: Yes

HMjr: I mean --

C: Yes, this is the first time they've had up just this question -

HMjr: That's right, but Sweden has had other things and so has Norway.

C: Yes, yes

HMjr: See?

C: It's different.

HMjr: What?

C: It's different.

HMjr: It's very different.

C: Yes - Are you going to be there yet a while today?

HMjr: Yes

C: Because I sent you a most important message today -

HMjr: You did?

C: Yes

HMjr: How long ago?

C: Two o'clock here. I gave it to my code room at half past five.

HMjr: I see.

C: This man called me to this afternoon.

HMjr: What's that?

C: The man who is - corresponds with  
George -

HMjr: Yes

C: - had me over this afternoon.

HMjr: Yes

C: And has a very direct question to place to you.

HMjr: All right

C: And so it's in the pouch - it's on the way over  
now. The Department should have it by this time.

HMjr: All right, thank you.

C: You'll be there tomorrow, will you?

HMjr: Yes, I will.

C: Fine

HMjr: All right.

C: Because they're anxious to get some action.

HMjr: All right.

C: Thanks a lot for this and I'll pass the word on  
to them.

HMjr: O. K.

As will be noted from the above conversation, the Secretary advised Cochran of the cable that was being despatched, but for Cochran's guidance he added that if the Bank of France or the Swedish Central Bank wished to make applications for the earmarking of gold with the Federal Reserve Bank, their requests would be sympathetically received. He emphasized to Cochran that this referred to the earmarking of gold only and not to the acquisition of gold from the United States Treasury which was a point that was not being taken at this time.

#2

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France  
DATE: September 4, 1936, 11 a.m.  
NO.: 837  
FOR THE SECRETARY OF THE TREASURY,  
FROM COCHRAN.

This morning I received a personal letter from Governor Rooth of the Central Bank of Sweden - the Sverigesriks Bank at Stockholm. He made reference to an idea which he advanced to me some time ago, the idea of his opening with the New York Federal Reserve Bank of a gold deposit.

Governor Rooth has asked my advice about the practicability of now taking the step above-mentioned. I cable to ask whether the Treasury would provide me with any information to pass on to Governor Rooth with regard to the formalities that would be involved in making such a gold deposit, and with regard to withdrawal of it. In particular would each shipment from New York require a license? The Bank of Sweden would like to know whether the Treasury could give assurance that there would be no question or delay in issuing any licenses that may be necessary.

I refer to my telegram No. 826 of September 3, 7 p.m., in which a similar question in behalf of the Bank of France is raised. The question arises whether there would be any

- 2 -

any difference in the conditions applicable to these two central banks, considering that one is in the sterling area and one is on the gold standard.

WILSON.

EA:LWW

75L

#3

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris

DATE: September 4, 1936, 2 p.m.

NO.: 335

FOR COCHRAN FROM SECRETARY OF THE TREASURY.

With regard to the transactions involved in the inquiry of September 3 from Cariguel, and the inquiry of September 4 from Governor Rooth, earmarking is covered by the general license issued to the Federal Reserve Bank of New York, under date of March 23, 1934. It is suggested that the Bank of France and Bank of Sweden discuss details with the Federal Reserve Bank of New York directly.

HULL

KA:LWW

September 3, 1938

Admiral Waesche and Captain Chalker met with the Secretary today to discuss the purchase of new planes for the Coast Guard. It was decided to set up a Board to inspect certain Navy planes and to decide on the type best suited for the Coast Guard's needs. This Board will consist of Captain Chalker, Commander von Neesen, Lieut. Olsen, Lieut. Burton and Mr. Cocklin. (See Admiral Waesche's memorandum attached.)

The Coast Guard officers also discussed with the Secretary the matter of the Coast Guard radio stations at Wintrop, Mass., New London, Conn., and Rockaway, New York, which were transferred two years ago on a temporary basis to the Navy Department. As a result of this discussion, HM, Jr. directed Admiral Waesche to prepare a letter in which the Secretary of the Navy would be informed that after careful study and as a matter of policy he, the Secretary, was convinced that these stations should be returned to their former status under the jurisdiction of the Coast Guard. (Attached is copy of letter signed by the Secretary addressed to the Secretary of the Navy.)



OFFICE OF COMMANDANT

TREASURY DEPARTMENT  
UNITED STATES COAST GUARD  
WASHINGTON

3 September 1936.

My dear Mrs. Klotz:

The board to inspect and test the plane constructed for the Navy by the Consolidated Aircraft Company, and the type PH-2 plane, built by the Hall Aluminum Company, and now in service in the Navy, will consist of the following officers:

- Captain L. T. Chalker,
- Commander C. C. von Paulsen,
- Lieutenant C. B. Olsen,
- Lieutenant W. A. Burton, and
- Mr. H. S. Cocklin.

As soon as Captain Chalker completes his arrangements in the Navy Department for the inspection and test of these planes, the board will immediately proceed with the work.

Very sincerely yours,

R. R. WAESCHE  
Rear Admiral, U.S. Coast Guard,  
Commandant.

Mrs. H. S. Klotz,  
Secretary to the  
Secretary of the Treasury,  
Washington, D.C.

( 05 )

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3 September 1936.

The Honorable,  
The Secretary of the Navy,  
Washington, D.C.

My dear Mr. Secretary:

With reference to the temporary transfer to the Navy of the Coast Guard radio stations at Winthrop, Massachusetts; New London, Connecticut; and Rockaway, New York, with their apparatus and equipment complete, the trial period of two years having expired, it is requested that these stations, with their apparatus and equipment, be returned to the Coast Guard on or before 15 September 1936.

I have given careful thought and study to the plan of operation of these stations and, as a matter of policy, I am convinced that these stations should be returned to their former status under the jurisdiction of the Coast Guard.

Very sincerely yours,

Secretary of the Treasury.

RRW / gmb

September 4, 1938

At 9:15, HM, Jr. discussed with Bell, Seltzer, Murphy, Haas, Viner, Lochhead and Harris, the kind of bond to issue at this time. While they were present he talked to Dr. Burgess, with the loud speaker on so all could hear, and the following is a record of their conversation:

HM, Jr: Hello, Burgess.

Burgess: Yes.

HM, Jr: How did the market open this morning?

B: Just a shade off.

HM, Jr: A shade off?

B: A shade off, yes.

HM, Jr: Now, look, Burgess, I've been doing a lot of thinking and this is where I stand this morning. I'm still a little fearful of a 2-3/4 20-23, see?

B: Yes.

HM, Jr: Hello?

B: I thought you were talking about 25?

HM, Jr: Well - I don't want to --

B: (Laughs.)

HM, Jr: I - well, I'm - if I did it, I don't want to go beyond '80. I'd rather make it 20-23.

B: I see, yes.

HM, Jr: Hello?

B: Yes.

HM, Jr: I mean some of these people, you know, they say, don't go beyond '80.

10A

B: Yes.

HM,Jr: But that's for the moment. I don't think that's important, I mean I think if we decided it was a 20-year we could very quickly make up our mind whether it was 20-23 or 20-25, see?

B: Oh, yes, yes.

HM,Jr: But the crowd I had down last night, they say quite frankly that they'd subscribe but they wouldn't keep it.

B: Yes.

HM,Jr: But they wouldn't keep it.

B: Yes.

HM,Jr: See?

B: Yes.

HM,Jr: Which is what they've all more or less said.

B: Well, that's what they did a good deal last time, isn't it?

HM,Jr: What's that?

B: That's a good deal what they did last time, isn't it? They've got some of them, but not so very many.

HM,Jr: Well, they said they'd keep about a quarter, but it keeps the market in a turmoil, that's -

B: Well, I don't know, it's distributing to the investors.

HM,Jr: All true - but if something came from the outside as a shock, that would be the first bond to get it.

B: That's right.

HM,Jr: Wouldn't it?

B: That's right, yes.

HM, Jr: Now, they all told -- everybody tells me an 11-year  $2\frac{1}{2}$  would go -- they'd keep it and forget about it.

B: Yes.

HM, Jr: My mind is still open, mind you, I haven't decided anything.

B: Yes, yes.

HM, Jr: We've got now three issues of  $2-3/4$ 's. We've stepped them up each time.

B: Yes.

HM, Jr: What?

B: That's right, yes.

HM, Jr: Now, towards the public, what are we doing? We're dropping an eighth --

B: Yes.

HM, Jr: And we're starting with  $2-5/8$ s and we're going to exhaust that field, see?

B: Yes.

HM, Jr: Now that's the way I'm arguing with myself.

B: Well, I don't like it very well I confess.

HM, Jr: I know you don't because we mentioned it when you were down here.

B: Yes -- and I don't know of anybody who does like it. I've mentioned it to a number of people.

HM, Jr: Well, will you do this for me?

B: Yes.

HM,Jr: Will you get hold of two or three people right away that you have confidence in and talk it over with them?

B: Well - yes, I can do that I guess - with a few. I don't -- I don't want to stir it up too much or you'll get them all --

HM,Jr: Well -

B: - on that stand.

HM,Jr: Well -

B: You've got - let's see, you have Davidson in a few minutes, haven't you?

HM,Jr: He's coming in a - three quarters of an hour.

B: I've got Dudley Mills here, I'll tackle him. He's just outside the door waiting.

HM,Jr: You might want to call Rentschler if you have to.

B: Yes - or

HM,Jr: Because Rentschler is a little fearful on this long one.

B: He is?

HM,Jr: Yes.

B: What, on the 20-23?

HM,Jr: Yes.- oh, he says it'll go --

B: Yes.

HM,Jr: But he wishes that the market were so that we could get an 18-20 - See, if we only could have done this a month ago then it would have been perfect.

B: Yes, yes - well, if you have any doubt about the 20-23 why not do a 19-23 or a 19- ---

HM,Jr: Well, there's too much profit in that, that's the trouble.

B: Well - I don't think you can follow the figures altogether on that.

HM,Jr: Well, but if it goes up the 19 would give what, a point and a half, wouldn't it?

B: Of course the - the way it goes up is partly a question of - of the number of fellows that want it. I'd be afraid that - that even though the 2-5/8s didn't show -- didn't show profit on paper it might show too much when you got it out -- because of the scramble for --

HM,Jr: Well, why don't you ask Dudley Mills and why don't you ask Rentschler, see?

B: All right, I'll talk to them.

HM,Jr: And then will you - after Davidson goes I'll call you.

B: Very good.

HM,Jr: See?

B: Very good. I'll have -- have something from both of them on that.

HM,Jr: But what - what are your own objections to a 2-5/8s?

B: I think it's - in the first place those eighth bonds are kind of miserable.

HM,Jr: Well, we had 2-7/8s.

B: I know we did.

HM,Jr: You've heard of those.

B: They're never as good as the quarter bonds.

HM,Jr: No, but - we did -

B: That's not a very strong objection, but it's sound. But the main point is you've got a chance to step out here in new areas where you haven't got a lot of bonds and to really lengthen out your - your debt structure. You haven't often had chances as good as this. You may not have as good a chance again. And I think you ought to improve the chance.

HM,Jr: Well, why -

B: Besides, the third point is that I hate to see you break that rate. I think that rate is low enough really, and it's better to put out a longer bond at that rate than at a lower rate, because some day you may have to - that was broken - the 2-3/4s at that rate once. - If you put it this way.

HM,Jr: What's that?

B: If you break the 2-3/4s at that rate once, then you have to put out a 2-3/4s. It'll just be a little embarrassing position because it would look as though you are slipping backwards. I think you make it harder to do the next step.

HM,Jr: Well, that's why the 2-5/8s - that would be the next logical step.

B: No, no - but the - my point is this. You have been putting out 2-3/4s - you may have to again. Now if you've got the rate at 5-8s it's going to make it more difficult for you in the future to put on a 2-3/4s when the situation calls for it.

HM,Jr: Well -

B: It looks like it's set backwards.

HM,Jr: What - a 2-5/8s looks like it's set backwards?

B: Not just at the moment, but later on some time when you can't sell a 2-5/8s and have to sell a 2-3/4s it looks like it's set backwards.

HM,Jr: Yes, well let's say we take the 2-3/4s and 20-25 and it's a flop. I mean, not now but six weeks from now.

B.: Well, I'm perfectly confident it wouldn't be a flop.

HM,Jr.: No, but six weeks from now.

B.: Yes.

HM,Jr.: And then, let's say it sells off and let's say it goes par or below, then we come into December, then what?

B.: Well, you'd put out a little shorter two and three quarters then if you wanted to.

HM,Jr.: Well, then it's just as much a weakness then as it -

B.: Well, I don't - I don't think so much.

HM,Jr.: Well - I think I got you there.

B.: No, I don't think so. I -

HM,Jr.: I think I got you there. (Laughs) You just want me to be weak -

B.: The general public watches these rates.

HM,Jr.: You want me to be weak in your way.

B.: (Laughs) No, I don't - I don't think that.

HM,Jr.: No, I know you fellows - I mean, I mean - it's just talk - you don't want this rate broken.

B.: No, I think it's a bad thing to break the rate. I think it's a bad thing for the long term lookout and I think it's a bad thing for the banks. I think they run a risk of taking a licking later on a lower rate and -

HM,Jr.: Well - this is what -

B.: Mainly, I'm looking at it from the point of view of the Treasury. I -

HM,Jr.: Oh -

B.: If you can sell a long bond you ought to do it.

HM, Jr: Yes, now Burgess - what I'd like to know from the banks is this.

B: Yes

HM, Jr: If we get out a two and five eighths, let's say fourteen seventeenth, would they hold that, will they keep it? See? - Will that go into their boxes permanently, or is that something that they would want to get rid of?

B: Oh, well. I can answer you that right now. They'll keep a lot of it.

HM, Jr: They'll keep a lot more than they would of the 2-3/4 twenty twenty-

B: That's right - that's why I don't like it.

HM, Jr: Why don't you like it?

B: You ought to be appealing to the investor.

HM, Jr: What?

B: You ought to be appealing to --

HM, Jr: Well, we are - we got a thing called a Baby Bond.

B: Yes, but - but - a two and three quarters, a long one would in effect be selling your bonds something the way most people sell their bonds. That is, which, if you were an underwriter, would take the bonds and distribute them. Now, to some extent you'd be doing that. And to some extent the Government's always done that on a long bond. The banks take them and gradually over a period a good many of those go to investors. And that in normal times is the way it should be. This business of the banks taking all the Government bonds has - has been abnormal and we ought to put out bonds which the banks would not hold permanently but investors would take over some. And you've got a chance to do it now - one of the best chances you've had. See, the dangerous thing is to have the whole business concentrated in these banks.

HM, Jr: Well, will you sound the thing out for me?

B: Yes.

HM,Jr: What?

B: Yes.

HM,Jr: And I'll leave it to you to do it discreetly.

B: I'll - we'll take care of that.

HM,Jr: But sound it out, see?

B: Yes - all right.

HM,Jr: Will you?

B: Yes.

HM,Jr: After Davidson leaves I'll call you.

B: Yes.

HM,Jr: Thank you very much.

B: Very good.

HM,Jr: Thank you.

At the conclusion of this telephone conversation, Seltzer said he does not like a 2-7/8s long term bond. He doesn't like a 2-3/4s. He does not agree with Dr. Burgess and says that as far as the banks go he does not think that this is the time to discourage bank purchases. They have plenty of money, he said.

Murphy agreed with what Seltzer said. He said they had talked this thing over before they came in and that they had agreed that they did not think well of a long-term bond at this time.

Haas agreed with Seltzer and added the fact that Burgess is having difficulty in pricing this issue indicates that he is uncertain about the longer term issue.

Seltzer then added the following: Disregarding the election, I think it is too early to start long-term bonds at

this time."

Harris said, "If it were a larger issue I would lean to a 2-3/4s. Since it is not so large I would lean to a 2-5/8 - 14 year."

Lochhead thought we should not go into an intermediate bond; that if we wanted cheap money we should stick to the 5-year note, but if we were going to have a bond issue he thought a long term 2-3/4s was best.

The meeting adjourned without anything definite having been decided.

September 4, 1936

At 10:15 o'clock, Mr. Davidson, President of the Central Hanover came in to see me. He had with him Mr. J. E. Hollingsworth, who is in charge of their bond department.

Davidson said that my asking for additional cash has had an extremely good effect in the financial center because they realize that I did not have to ask for any new money and that I am trying to conduct the Treasury as though it was a business.

He unhesitatingly recommended a 20-25 year 2-3/4s. He said that the insurance companies alone will take \$500,000,000; that it will be ten times oversubscribed; that there will be great kudos in it for me; that if I did anything else it would be considered a political trick; that if I am thinking of going to a 2 1/2, why not go the whole way and go to 2 3/4? He said I have nothing to worry about. The trouble in Europe would not even affect this; by all means to go the full 25 years; that I should not consider a 20-23.

They were very positive in their advice. They say they have 150 banks as correspondents and they are going to advise them all to buy and hold this security.

We got on to England. Davidson said that he is in close touch and that there are three things which are holding England back from entering into a stabilization agreement with us. First and foremost, silver; second, our unbalanced budget, and, third, the British war debt. He said it goes without saying that they will do nothing until after our election and with our budget picture improving he would think it would be good to do something with England right after election. I said that I thought to date the American business men had not suffered through lack of world stabilization as the United States competitive position in the world had been constantly improving. He agreed to this. He said he recently had advised a man who held gold in England to sell it and bring it here.

He said, "I appreciate the chance of a frank talk. You need not worry that we will repeat any. We would

like to be able to come down here and exchange confidences." He made an excellent impression on me -- one of the best of any New York banker who has been down. Hollingsworth, whom he brought with him as his bond expert, did not have a chance to open his mouth, but Davidson certainly knows his business and had the bond figures at his finger tips and he did not need Hollingsworth to prompt him.

September 4, 1938

The Treasury group, consisting of Bell, Seltzer, Murphy, Haas, Viner, Lochhead and Harris, came in again at 11:15 and HM, Jr. again called Dr. Burgess. He talked to him with the loud speaker on so that the whole group could hear the conversation.

The following is a record of the Secretary's conversation with Dr. Burgess:

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Friday  
September 4, 1936  
11:34 a. m.

HMjr: Hello

Operator: Dr. Burgess  
W. R.  
Burgess: Hello, sir

HMjr: Hello, Burgess?

B: Yes, sir

HMjr: Well, now what do you know?

B: Well, I can't find anybody that likes it.

HMjr: You can't?

B: They say it's a go but they - they don't think it would be good financing - they think the banks would take it but probably wouldn't keep it very much more than they would a two and three quarters.

HMjr: Yes

B: One of them calls it a 'bastard bond' -

HMjr: One of them calls it a what?

B: A 'bastard bond' -

HMjr: Oh, they're getting nasty -

B: And another calls it a 'hat size bond'.

HMjr: I see - head size?

B: Hat - h-a-t

HMjr: I see.

B: Hat size.

HMjr: What does that mean?

B: Well, it's an eighth, you see?

HMjr: Oh -

B: It's - an eighth -

HMjr: I see, it has eight sides, I see.

B: They - they think it would go, but they think that the market would - would think you weren't doing the job that you could do. Rentschler reported about his fellows there - you haven't talked to him this morning, have you?

HMjr: No

B: Leo Kane - after a long discussion then we had breakfast together and had more discussions - Leo Kane thinks the twenty twenty-two is the thing to do - twenty twenty-two two and three quarters. He finds that Simonson -you know Simonson who is the old vice president there and the operating vice president?

HMjr: No

B: - who is an old boy and has been down the Street a long time - He says that he likes the two and three quarters, that he thinks that people are not as choosy on maturities as they used to be and they're more interested in the rates. On the other hand, Rentschler himself I think leans a little towards the - towards the eleven year two and a half.

HMjr: Yes

B: But he's a little 'on the fence'.

HMjr: Yes

B: He checked up with the - with the Farmers Loan and Trust Company -- you know, they have that -

HMjr: - the farmers? - yes -

B: That's right, the farmers -

HMjr: I mean that's their trust department.

B: Yes - well really, it's a separate institution -

HMjr: Yes

B: But it's the same thing. He talked with Lindy Bradford who said they wouldn't take a twenty twenty-three.

HMjr: They would not?

B: - except - except to buy it and then to sell it again, they would do that.

HMjr: Yes

B: And sell it over a period.

HMjr: Yes

B: They wouldn't take it for their trust funds. They're going carefully in all bonds, as a matter of fact.

HMjr: Yes

B: He called up Bennett of the Immigrants Industrial - he says he wouldn't take any of them any way. (Laughs)

HMjr: He wouldn't take any bonds?

B: Well, practically none. He didn't like those two and a half much better than he did a two and three quarters - longer one.

HMjr: Yes

B: He might take a few of the shorter maturity, but not many. Well, he's no guide to the market. I talked to the Discount Corporation -

HMjr: Yes

B: And they don't like the shorter bond. They think the two and three quarters is the right thing to do.

HMjr: Yes

B: Both Repp and Mills -

HMjr: Yes

B: Mills thought the drift of the two and three quarters is pretty close to shore.

HMjr: He talks about what?

B: - about one that is pretty close to shore, that is, a relatively short maturity - the two and three quarters. That is, fifty-four fifty-seven or fifty-five fifty-eight, something like that.

HMjr: The twenty twenty-three?

B: But Repp says the twenty twenty-three will be fine.

HMjr: Twenty twenty-three?

B: Yes - or even a little longer than that. Repp has better judgment than these two fellows incidentally and I -

HMjr: Well, what does Repp say?

B: Repp likes the long two and three quarters.

HMjr: Yes

B: Twenty twenty-three or twenty twenty-five - along in there.

HMjr: Yes

B: Now, I'll just try to summarize the considerations here - I've talked to an awful lot of people here, I haven't told about all of them, I mean, over the past ten days.

HMjr: Yes

B: And I've seldom seen the market so unanimous on taking it up say, at two and three quarters.

HMjr: Yes

B: Now they give different maturities.

HMjr: Yes

B: There's quite a range there. Anywhere from fifty-four fifty-seven to sixty sixty-five.

HMjr: Yes

B: That wide range. But they all seem to think a two and three quarters is the right thing to do.

HMjr: Yes

B: And they think there's a fine market for it. And, as I've talked with them from time to time I've tried out the shorter - two and half and two and five-eighths and they say, 'No, that isn't good financing, that isn't the thing that would be best'.

Now, what consideration then, as far as to do with the Treasury is your present range of maturities? I was just checking it up. While there isn't any actual maturity in the fifty or fifty-three or any actual call day, the number of bonds that might have to be redeemed in either of those years is considerable. That is, from forty-five to fifty-three you've got a lot of bonds.

HMjr: Yes

B: I just counted it up, there are nearly eleven billion in bonds to be taken care of in those eight years.

HMjr: Yes

B: Which isn't too many, but it's enough, considering the fact that you may have a floating debt to run along over.

HMjr: Yes

B: Now, it seems to me that the Secretary of the Treasury has always got to leave himself some elbow room. That is, you've always got to save for the contingency that the Nation might get into an international difficulty of some sort, and there ought always to be available years for putting in financing that aren't all filled up.

HMjr: Yes

B: So it's good finance to push your borrowing off and to leave gaps in it and not fill them all up because if you plan war you might have to raise five billion in six months - then you need lots of elbow room.

HMjr: Yes

B: I think that's - that's an important consideration. And now the second important point, it seems to me, is that we ought to put the bond out that is going to appeal most -

HMjr: - going to do what?

B: Appeal most to investors.

HMjr: Yes

B: We've got it all stacked up in the banks, we've got them all loaded and the higher the coupon the longer

the maturity, the more it will appeal to investors and the less to banks. And I think if you had a reasonably long two and three quarters that you can reach that particular market. I think those are the big considerations.

HMjr: Yes - well now, summing it all up, what is your concrete suggestion at this moment?

B: Well I think I would write about a twenty twenty-three.

HMjr: A twenty twenty-three?

B: It gives you three call years that gets out nicely there.

HMjr: Twenty twenty-three?

B: Now that's being a little more conservative than - than if I would if I didn't know that you had gotten a little that way.

HMjr: Yes - I mean, when you first came down you were talking twenty twenty-five.

B: Yes - that wouldn't worry me any but - but to be on the safe side I'd keep it under - I'd keep the maturity date under sixty.

HMjr: Yes - are there - have there been some other people who have raised that point of keeping the maturity under sixty?

B: Yes, one or two have.

HMjr: Yes

B: Yes

HMjr: Well, now, you'll be interested in what Davidson said.

B: Yes

HMjr: Very enthusiastic for a twenty twenty-five.

B: Is that so?

HMjr: He's got a hundred and fifty correspondents, he's going to tell all of them to take it.

B: Yes

HMjr: And his man, Hollingsworth, says it's an advantage to go beyond sixty. He says, 'You ought to have something beyond sixty'.

B: Well, there is an advantage.

HMjr: He says, 'You ought to go beyond sixty, you ought to attempt that field'.

B: Yes

HMjr: And Davidson, unhesitating - said five hundred million of it will go to the insurance companies and they'll put it away.

B: Yes, yes

HMjr: Ah -

B: Well, he's in close touch with some of them.

HMjr: Yes - and he said that it'll just go, he said it'll be ten times over subscribed. And he said the fact that we asked for the new money has made an excellent impression and he said they didn't expect it, they thought I'd play politics -

B: Yes

HMjr: That it's made an excellent impression. And he said, 'Don't do a two and five eighths or two and a half'. He said, 'If you want to do that', he said, 'why everybody is going to accuse you of being smart'. He said, 'Be real smart and get out a two per cent'.

B: Yes

HMjr: He said, 'If you - '

B: (Laughs)

HMjr: He said, 'No, if you really want to beat that, if you want to be smart, take a two per cent eight years'.

B: Yes, yes

HMjr: -'if you're really going to be smart'. But he said, 'If you get out a twenty twenty-five it'll for you'.

B: Yes

HMjr: ' - it'll - it'll - ' He said, 'You'd be - ' He said, 'I want to tell you we'll be surprised you have the nerve and the courage to do this at this time'.

B: Yes

HMjr: And he said, 'If you say that you want to run the Treasury like a business man, then I say to you, do what a business man would do', and he said, 'that's the two and three quarters twenty twenty-five'.

B: Yes, yes

HMjr: He said, 'That - ' He said, 'If you want to run it like a business man do it that way', and he said, 'I'm telling you it'll be ten times over subscribed and we're going to tell our correspondents to do it'.

B: Yes

HMjr: And he said, 'We bought bonds yesterday'.

B: Yes, I know he did.

HMjr: 'And we bought bonds yesterday'. And then he said, 'That's the way we feel'.

B: Yes, yes

HMjr: Now, Davidson is a pretty conservative fellow, isn't he?

B: Yes, he is - he is.

HMjr: He got some of my breath away.

B: (Laughs)

HMjr: So, that's the way he feels.

B: Yes, yes - well, I would agree with him, but with your feeling as you do on the matter I'd be a little bit conservative and -

HMjr: Well, the way the thing is now, I mean<sup>a</sup>/twenty year bond though, - how much ought it sell at?

B: Well, I just got some new figures computed this morning.

HMjr: Yes

B: A twenty year bond at about a point and a third.

HMjr: About a point and a third? - well, that's about what we figure here.

B: Yes

HMjr: Well now, if you think it makes it a little bit more attractive to make it twenty twenty-three as against twenty-five - ?

B: Yes, I think it makes it a little more attractive.

HMjr: A little more attractive?

B: Yes

HMjr: There is one fellow, I forget who it was, I think it was Repp, who said, 'Don't get beyond sixty'.

B: Yes, Repp has that feeling.

HMjr: Yes - and then of course Rentschler has that.

B: Yes, very decidedly -

HMjr: What?

B: Yes, he has that quite decidedly.

HMjr: It'd make it a little bit more attractive, wouldn't it?

B: That's right, yes, - that's right.

HMjr: Yes - well, I'll do some more talking - if I want to get you I can get - you eat in your building there, don't you?

B: I'll be right here, yes, I'll be in the building.

HMjr: And - has - the market is practically frozen right now, isn't it?

B: Yes, it was off a little bit this morning and I think it has come back just a shade.

HMjr: Yes

B: But it's - it's all right. It's just -

HMjr: Well, are they - are they - would you say - the fellows you talked to - have they sort of quieted down or are they still pretty much up in the air? .. The bond dealers?

B: Oh, they're - they're quiet.

HMjr: They're quiet?

B: Oh yes, they're not excited.

HMjr: I mean, they were milling around at the beginning of the week, weren't they?

B: Oh, a little bit, yes.

HMjr: Yes

B: A little bit -

HMjr: Yes - well, Davidson put up quite a story.

B: Well, he's a good man.

HMjr: Yes- yes - I was very glad, because we went into a lot of other things and I was very glad I had him down here.

B: Oh yes, well I was glad you did too, because he's one of our directors -

HMjr: Yes

B: And he - I think he's pretty sensitive too, and he likes to be consulted.

HMjr: Right, well, I'll be calling you.

B: All right.

HMjr: Thank you.

When this conversation was concluded the operator told the Secretary that Earle Bailie was calling and HM, Jr. went into Mrs. Klotz' office to talk to him.

Mr. Bailie said he would like to see the Secretary put out a 2-3/4 bond, either 19-year, 20-year or 21-year, and see to it that it had enough margin to have at least 1 1/4 points. Bailie said he had no objection to going beyond 1960, thus making it a 20-25 year bond.

The Secretary returned to his office and resumed his discussion with the Treasury group.

Apparently after thinking it over, each man agreed that he would like to see the Treasury get out a 2-3/4s 20-23 or 20-25 year bond. Opinions varied as to the length of the term, but all agreed with a 2-3/4 bond. Mr. Bell handed in his recommendation in the form of a memorandum, which is attached.



# TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

COMMISSIONER OF  
COUNTS AND DEPOSITS

September 4, 1936

## SEPTEMBER 15 FINANCING

I like the 2-3/4% 20-23 year (1956-59) term bond because it follows the trend of the last year and from all indications will appeal not only to the real investor but to the banks, and because of the general feeling that eventually a substantial part of such bonds which are acquired by the banks will be distributed to the investors.

I must confess that I am impressed with the 2-1/2% 11-14 year (1947-50) bond because it starts a new level of rates at a conservative term of years in the same manner as we started the 2-3/4% issues last year. It would be hoped that this would give the impression to the market that this new rate would, over the next few months, be extended in term of years. This rate and term would, no doubt, be preferred by the banks. Probably the real investors would not seek such an issue.

This raises the query as to whether the Treasury wants at this time to start a new level of rates; whether it might not react politically; and whether we want to put out an issue which will have more appeal to the banks than to the real investor. It would seem that any permanent upward trend which we might expect

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in money rates in the near future would be aided certainly by the banks selling their holdings of Government securities. It is to our advantage, then, for more of our bonds to be in the hands of investors who will hold them regardless of money market conditions.

The ideal time to lower rates, extend the term and more closely adhere to market yields, is on a refunding issue without any new cash. If our Budget estimates are correct we will have a number of opportunities within the next year to have our financing operations consist only of exchange issues, at which time we can lower rates and probably get a longer term than now.

*sub B*

Friday  
September 4, 1936  
9:16 a. m.

HMjr: Hello

Operator: Doctor Burgess -

W. R.  
Burgess: Hello, sir

HMjr: Hello, Burgess

B: Yes

HMjr: How did the market open this morning?

B: Just a shade off -

HMjr: A shade off?

B: A shade off, yes.

HMjr: Now, look, Burgess, I've been doing a lot of thinking and this is where I stand this morning. I'm still a little fearful of a two and three-quarters twenty-twenty-three, see?

B: Yes

HMjr: Hello?

B: I thought you were talking about twenty-five?

HMjr: Well - I don't want to -

B: (Laughs)

HMjr: I - well, I'm - if I did it, I don't want to go beyond sixty. I'd rather make it twenty twenty-three.

B: I see, yes.

HMjr: Hello?

B: Yes

HMjr: I mean some of these people, you know, they say, 'don't go beyond sixty'.

B: Yes

HMjr: But that's for the moment. I don't think that's important, I mean I think if we decided it was a twenty year we could very quickly make up our mind

whether it was twenty twenty-three or twenty twenty-five, see?

B: Oh yes, yes

HMjr: But the crowd I had down last night, they say quite frankly that they'd subscribe but they wouldn't keep it.

B: Yes

HMjr: See?

B: Yes

HMjr: Which is what they've all more or less said.

B: Well, that's what they did a good deal last time, isn't it?

HMjr: What's that?

B: That's a good deal what they did last time, isn't it? They've got some of those, but not so very many.

HMjr: Well, they said they'd keep about a quarter, but it keeps the market in a turmoil, that's -

B: Well, I don't know, it's distributing to the investors.

HMjr: All true - but if something came from the outside as a shock that would be the first bond to get it.

B: That's right.

HMjr: Wouldn't it?

B: That's right, yes.

HMjr: Now, they all told - everybody tells me an eleven year two and a half would go - and they'd keep it, forget about it.

B: Yes

(Short pause)

HMjr: Hello

B: Yes

HMjr: Now, I've got a new one which I want you to think over and I want you to test out on some of your friends there.

B: Yes

HMjr: The two and five eighths on last night's market would be a fourteen year which would come in nineteen fifty, see?

B: Yes

HMjr: Now, we - mathematically two and five eighths would be nineteen fifty fifty-three.

B: Yes

HMjr: And fifty and fifty-three are both blank.

B: Yes

HMjr: See?

B: Yes

HMjr: Now, what - and that hasn't got the disadvantages of a long one and it hasn't got the disadvantages of the two and a half because the two and a half falls in too congested an area, see?

B: Well, this isn't quite as congested but there are a good many bonds in this area.

HMjr: Oh - oh, no - you've got a blank in fifty and fifty-three.

B: Yes, but you've got a fifty-one fifty-five and you've got a forty<sup>4.5%</sup> something fifty --

HMjr: No, but it's - it's getting out.

B: Well, a little, but I don't think - I don't think it really gets out of your congested area.

HMjr: Well, let me tell you how I argue with myself.

B: Yes

HMjr: My mind is still open, mind you, I haven't decided anything.

B: Yes, yes

HMjr: We've got now three issues of two and three-quarters. We've stepped them up each time.

B: Yes

HMjr: What?

B: That's right, yes.

HMjr: Now, towards the public, what are we doing? - We're dropping an eighth -

B: Yes

HMjr: - and we're starting with two and five eighths and we're going to exhaust that field, see?

B: Yes

HMjr: Now that's the way I'm arguing with myself.

B: Well, I don't like it very well I confess.

HMjr: I know you don't because we mentioned it when you were down here.

B: Yes - and I don't know of anybody who does like it. I've mentioned it to a number of people.

HMjr: Well, will you do this for me?

B: Yes

HMjr: Will you get hold of two or three people right away that you have confidence in and talk it over with them?

B: Well - yes, I can do that I guess - with a few. I don't - I don't want to stir it up too much or you'll get them all -

HMjr: Well -

B: - on that stand.

HMjr: Well -

B: You've got - let's see, you have Davidson in a few minutes haven't you?

HMjr: He's coming in a - three quarters of an hour.

B: I've got Dudley Mills here, I'll tackle him. He's just outside the door waiting.

HMjr: What's that?

B: I've got Dudley Mills just outside the door here waiting.

HMjr: You might want to call Rentschler again.

B: Yes - or

HMjr: Because Rentschler is a little fearful on this long one.

B: He is?

HMjr: Yes

B: What, on the twenty twenty-three?

HMjr: Yes- oh, he says it'll go --

B: Yes

HMjr: But he wishes that the market were so that we could get an eighteen twenty. He said, 'If we only could have done this a month ago then it would have been perfect'.

B: Yes yes - well, if you do have any doubt about the twenty twenty-three why then do a nineteen twenty-three or a nineteen --

HMjr: Well, there's too much profit in that, that's the trouble.

B: Well - I don't think you can follow the figures altogether on that.

HMjr: Well, but if it goes up the nineteen would give what, a point and a half, wouldn't it?

B: Of course the - the way it goes up is partly a question of - of the number of fellows that want it. I'd be afraid that - that even though the

two and a half and two and five eighths didn't show - didn't show profit on paper it might show too much when you got it out - because of the scramble for --

HMjr: Well, why don't you ask Dudley Mills and why don't you ask Rentschler, see?

B: All right, I'll talk to them.

HMjr: And then will you - after Davidson goes I'll call you.

B: Very good

HMjr: See?

B: Very good. I'll have - have something from both of them on that.

HMjr: But what - what are your own objections to a two and five eighths?

B: I think it's - in the first place those 'eighth' bonds are kind of miserable.

HMjr: Well, we had two and seven eighths.

B: I know we did.

HMjr: You've heard of those.

B: They're never as good as the quarter bonds.

HMjr: No, but - we did -

B: That's not a very strong objection, but it's sound. But the main point is you've got a chance to step out here in new areas where you haven't got a lot of bonds and to really lengthen out your - your debt structure. You haven't often had chances as good as this. You may not have as good a chance again. And I think you ought to improve the chance.

HMjr: Well, why -

B: Besides, the third point is that I hate to see you break that rate. I think that rate is low enough really, and it's better to put out a longer bond at that rate than at a lower rate, because some day you may have to - that was broken - the

two and three quarters - at that rate once -  
If you put it this way.

HMjr: What's that?

B: If you break the two and three quarters at that rate once then you have to put out a two and three quarters. It'll just be a little embarrassing position because it would look as though you are slipping backwards. I think you make it harder to do the next step.

HMjr: Well, that's why the two and five eighths - that would be the next logical step.

B: No, no - but the - my point is this. You have been putting out two and three quarters - you may have to again. Now if you've got the rate at five eighths it's going to make it more difficult for you in the future to put out a two and three quarters when the situation calls for it.

HMjr: Well -

B: It looks like it's set backwards.

HMjr: What - a two and five eighths looks like it's set backwards?

B: Not just at the moment, but later on some time when you can't sell a two and five eighths and have to sell a two and three quarters it looks like it's set backwards.

HMjr: Yes, well let's say we take the two and three quarters and twenty twenty-five and it's a flop. I mean, not now but six weeks from now.

B: Well, I'm perfectly confident that it wouldn't be a flop.

HMjr: No, but six weeks from now.

B: Yes

HMjr: And then, let's say it sells off and let's say it goes par or below, and then we come into December, then what?

B: Well, you'd put out a little shorter two and three quarters then if you wanted to.

HMjr: Well, then it's just as much a weakness then as it -

B: Well, I don't - I don't think so much.

HMjr: Well, - I think I got you there.

B: No, I don't think so. I -

HMjr: I think I got you there. (Laughs) You just want me to be weak -

B: The general public watches these rates.

HMjr: You want me to be weak in your way.

B: (Laughs) No, I don't - I don't think that.

HMjr: No, I know you fellows - I mean, I mean - it's just talk - you don't want this rate broken.

B: No, I think it's a bad thing to break the rate, I think it's a bad thing for the long term lookout and I think it's a bad thing for the banks. I think they run a risk of taking a licking later on a lower rate and -

HMjr: Well - this is what -

B: Mainly, I'm looking at it from the point of view of the Treasury. I -

HMjr: Oh -

B: If you can sell a long bond you ought to do it.

HMjr: Yes, now Burgess, - what I'd like to know from the banks is this.

B: Yes

HMjr: If we get out a two and five eighths, let's say fourteen seventeenth, would they hold that, will they keep it? See? - Will that go into their boxes permanently, or is that something that they would want to get rid of?

B: Oh well, I can answer you that right now. They'll keep a lot of it.

HMjr: They'll keep a lot more than they would of the two

and three quarters twenty twenty-five?

B: That's right - that's why I don't like it.

HMjr: Why don't you like it?

B: You ought to be appealing to the investor.

HMjr: What?

B: You ought to be appealing to --

HMjr: Well, we are - we got a thing called a Baby Bond.

B: Yes, but - but - a two and three quarters, a long one would in effect be selling your bonds something the way most people sell their bonds. That is what you'd do as an underwriter, take the bonds and distribute them. Now, to some extent you'd be doing that. And to some extent the Government's always done that on a long bond. The banks take them and gradually over a period a good many of those go over to investors. And that, in normal times, is the way it should be. This business of the banks taking all the Government bonds is - has been abnormal and we ought to put out bonds which the banks would not hold permanently but investors would take over some. And you've got a chance to do it now, - one of the best chances you've had. See, the dangerous thing is to have the whole business concentrated in these banks.

HMjr: Well, will you sound the thing out for me?

B: Yes

HMjr: What?

B: Yes

HMjr: And I'll leave it to you to do it discreetly.

B: I'll - we'll take care of that.

HMjr: But sound it out, see?

B: All right, yes -

HMjr: Will you?

B: Yes  
HMjr: And after Davidson leaves I'll call you.  
B: Yes  
HMjr: Thank you very much.  
B: Very good.  
HMjr: Thank you.

Friday  
September 4, 1936  
2:25 p. m.

Operator: Dr. Burgess

W. R.  
Burgess: Hello, sir

HMjr: Well, how are things now?

B: They're just about the same.

HMjr: About the same?

B: No change especially -

HMjr: Well, the two and seven eighths - are -

B: They were -

HMjr: - up a thirty second - huh? Very little business,  
huh?

B: Very little, everything's quiet here.

HMjr: Yes - any new -

B: - quiet -

HMjr: Any new thoughts?

B: Not a bit, I still feel just as I did.

HMjr: How was that?

B: Oh, a fifty-six fifty-nine -

HMjr: I see.

B: About that

HMjr: Yes

B: I'd take it lightly.

HMjr: Well, I - we'll figure. I mean I'm trying to  
get the President this afternoon and have a talk  
with him.

B: Yes

HMjr: And we'll see how it opens in the morning.

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B: Yes, yes

HMjr: - I don't like this French situation -

B: Yes, but they've - they've had these recurrent semi-crises repeatedly. I don't think it's really coming to a head this time.

HMjr: We're figuring here-- this - if we do a fifty-five fifty-six on a yield basis that's a little bit better than the two and seven eighths, isn't it?

B: The fifty-five fifty-six?

HMjr: No, I mean - if we do a fifty-six fifty-nine?

B: No

HMjr: - two and three quarters - that'll look a little bit sweeter than the fifty-five sixty. - on a yield basis they tell me.

B: Yes

HMjr: What?

B: I don't get just what you mean?

HMjr: Well, I mean it'll - it'll yield a little bit more. It'll be a little bit more attractive.

B: Oh yes, oh yes

HMjr: The yield will be slightly higher.

B: Oh, that's right, yes.

HMjr: What?

B: That's right, yes. A fifty-five sixty of course yields two sixty-three.

HMjr: Yes, this would be -

B: You see, two and three quarters

HMjr: Yes

B: So it's a little better yield.

HMjr: Yes

B: And it's really a little - a little shorter on the maturity date of course.

HMjr: Yes - well, that's all to the advantage, isn't it?

B: Absolutely, yes, yes -

HMjr: Well, I don't think I'll call again unless the President should say something which is contrary to what I am thinking now.

B: Yes, yes

HMjr: And, if you don't hear from me again I'll call you in the morning after the market opens.

B: All right, fine, - fine

HMjr: Goodnight

B: Well, I - I have great confidence in this thing, as much as I ever have in any financing. And I think it is right and it's what the market expects right along in there -

HMjr: Yes

B: I think there is no occasion for concern about it.

HMjr: Well, thank you.

B: All right

HMjr: Goodbye

B: Goodbye

Friday  
September 4, 1936  
2:25 p.m.

Operator:

Mr. Burgess.

W.R.

Burgess:

Hello, sir.

H.M.Jr:

Well, how are things now?

B:

They're just about the same.

H.M.Jr:

About the same?

B:

No change especially -

H.M.Jr:

Well, the two and seven eighths - are -

B:

They were -

H.M.Jr:

- up a thirty second, huh? Very little business, huh?

B:

Very little, everything's quiet here.

H.M.Jr:

Yes - any new -

B:

- quiet -

H.M.Jr:

Any new thoughts?

B:

Not a bit, I still feel just as I did.

H.M.Jr:

How was that?

B:

Oh, a fifty-six fifty-nine -

H.M.Jr:

I see.

B:

About that

H.M.Jr:

Yes.

B:

I'd take it lightly.

H.M.Jr:

Well, I - we'll figure. I mean I'm trying to get the President this afternoon and have a talk with him.

B:

Yes.

H.M.Jr:

And we'll see how it opens in the morning.

B: Yes, yes.

H.M.Jr: - I don't like this French situation -

B: Yes, but they've - they've had these recurrent semi-crises repeatedly. I don't think it's really coming to a head this time.

H.M.Jr: We're figuring here - this - if we do a fifty-five fifty-six on a yield basis that's a little bit better than the two and seven eighths, isn't it?

B: The fifty-five fifty-six?

H.M.Jr: No, I mean - if we do a fifty-six fifty-nine?

B: No.

H.M.Jr: - two and three quarters - that'll look a little bit sweeter than the fifty-five sixty. - on a yield basis they tell me.

B: Yes.

H.M.Jr: What?

B: I don't get just what you mean?

H.M.Jr: Well, I mean it'll - it'll yield a little bit more. It'll be a little bit more attractive.

B: Oh yes, oh yes.

H.M.Jr: The yield will be slightly higher.

B: Oh, that's right, yes.

H.M.Jr: What?

B: That's right, yes. A fifty-five sixty of course yields two sixty-three.

H.M.Jr: Yes, this would be -

B: You see, two and three quarters -

H.M.Jr: Yes.

B: So it's a little better yield.

H.M.Jr: Yes.

B: And it's really a little - a little shorter on the maturity date of course.

H.M.Jr: Yes - well, that's all to the advantage, isn't it?

B: Absolutely, yes, yes -

H.M.Jr: Well, I don't think I'll call again unless the President should say something which is contrary to what I am thinking now.

B: Yes, yes.

H.M.Jr: And, if you don't hear from me again I'll call you in the morning after the market opens.

B: All right, fine - fine.

H.M.Jr: Good night.

B: Well, I - I have great confidence in this thing, as much as I ever have in any financing. And I think it is right and it's what the market expects right along in there -

H.M.Jr: Yes.

B: I think there is no occasion for concern about it.

H.M.Jr: Well, thank you.

B: All right.

H.M.Jr: Goodbye.

B: Goodbye.

Pres. - Roosevelt

In view of preparations  
for September financing  
commence European monetary  
situation and number  
of very important pending  
matters all of which need  
my personal attention

I strongly question advisability  
of my making trip to  
Salt Lake <sup>City</sup> Period. I will  
of course attend funeral  
services Saturday afternoon  
in Washington Period.  
Would greatly appreciate  
your abrogating me your wishes.

WCNS127

*Sacy. Derrin's Funeral*

ADD. DERN

THE WAR DEPARTMENT ANNOUNCED SERVICES WILL BE HELD AT 4 P. M., EST., SATURDAY, AT THE MOUNT PLEASANT CONGREGATIONAL CHURCH IN THE CAPITAL WITH REV. DR. RUSSELL J. CLINCHY OFFICIATING.

AFTER THESE SERVICES, THE SECOND SQUADRON, THIRD CAVALRY AND THE FIRST BATTALION, 16TH FIELD ARTILLERY, WILL ACCOMPANY THE FUNERAL PARTY TO THE RAILROAD STATION WHERE IT WILL BE RECEIVED BY A GUARD OF HONOR CONSISTING OF A BATTALION OF INFANTRY AND ANOTHER OF ENGINEERS.

THE FUNERAL PARTY WILL TRAVEL BY SPECIAL TRAIN TO SALT LAKE CITY WHERE IT IS DUE TO ARRIVE AT 8 A. M., TUESDAY.

THE BODY WILL LIE IN STATE AT THE STATE CAPITOL UNTIL 3 P. M., WHEN THE FUNERAL WILL BE HELD FROM THE CAPITAL.

THE REV. DR. ELMER I. GOSHEN AND THE REV. DR. JACOB TRABB WILL OFFICIATE. BURIAL IS TO BE AT MOUNT OLIVET CEMETERY WITH FULL MILITARY AND MASONIC HONORS.

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TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

COMMISSIONER OF  
ACCOUNTS AND DEPOSITS

September 4, 1936

FINANCE CONFERENCE AT THE SECRETARY'S HOUSE  
ON THURSDAY EVENING, SEPTEMBER 3.

-oOo-

Those present besides the Secretary were Gordon Rentschler, President of the National City Bank of New York, and his bond man, Mr. Leo A. Kane, and Mr. Bell.

The Secretary started the conversation by asking these gentlemen what they had in mind for the September 15 financing. Mr. Rentschler stated that he and Mr. Kane had discussed the matter quite fully coming down on the train, and while they were both in accord that a 2-1/2% eleven-fourteen year bond (1947-50) or a 2-3/4% twenty-twenty-three year bond (1956-59) would be received well by the market, there was a slight difference between them as to the preference for the two issues. Mr. Rentschler said he favored the 2-1/2% shorter term bond because it was ideally suited for the banks' portfolio. No doubt many of the banks would subscribe to or buy these bonds and put them away and keep them. If they had more governments than were desirable they no doubt would sell their longer term and higher coupon bonds to investors such as insurance companies, etc.

Mr. Bentschler said that the 2-3/4% bond would sell on the basis of the present market well over one, and possibly as high as 1 1/2% premium. He said that they had talked about a shorter term obligation of 18 or 19 years, but they considered that the premium which this bond would demand was too much for the Treasury to pay. He said further that if this issue had been offered a month or six weeks ago on the basis of 18-21 years, at the 2-3/4% rate, it would have been ideal.

Mr. Bentschler pointed out that the Secretary would have to take into consideration the fact that the present bond market had gone up quite rapidly -- as a matter of fact, too rapidly -- and that there might be a break in it somewhere along the line in the next few weeks. He saw nothing politically or from a foreign standpoint to disturb it, but said it might be the natural consequence of a readjustment in a rapidly increasing market.

Mr. Kane on the other hand felt that while what Mr. Bentschler said was true -- that is, that certainly the shorter term bond was ideally suited to the needs of the National City and no doubt many other banks -- yet he felt that from the standpoint of the Treasury's interest the 2-3/4% was a much more desirable bond. He said the banks would subscribe to them, but would probably keep a percentage of their allotment. He thought the National City might keep as much as 25% of its allotment, distributing the balance to its investors. It was Mr. Kane's opinion that the Treasury would have a larger subscription from real investors for the higher coupon, and that

the insurance companies in New York, which have between 100 and 150 million dollars of idle cash, would be well satisfied with the 2-3/4% coupon whereas they would not be so much interested in a 2-1/2% coupon.

The discussion then turned on what effect the distribution of the higher coupon would have on the market. Both of these gentlemen agreed that in view of the fact that there would be a period of three months for this distribution, and the further fact that it was not a large issue, the market would not suffer, but it was agreed that this was a factor which the Secretary must take into consideration in making his decision. <sup>If</sup> The Secretary later called attention to the fact that if the Treasury decided upon a 2-1/2% rate, it would give an impression to the public that here was a new level of rates starting on the basis of a conservative term of years somewhat along the line that it started the 2-3/4% rate, and that gradually, in the next year or so, we might be able to extend that 2-1/2% rate over a longer period of years.

Mr. Kane said he had not thought of that and in his preference for the 2-3/4% bond, but it certainly appealed to him.

The conference broke up about ten o'clock. On leaving, both Mr. Bentschler and Mr. Kane assured the Secretary that either the 2-1/2% or the 2-3/4% rate, with the terms mentioned, would go, and go well.

*Wm B*

September 4, 1936

For supper last night had Rentschler and Kane, his bond man, and Bell.

Rentschler is a little bit afraid of a 20-year bond. Kane seemed to think it would be all right. Before they left they both said that we could sell a 20-25 year bond, but if we did, the banks would subscribe to them but would sell most of them off for a profit. If, however, we should get out a 2-1/2 per cent 11-year bond, they would put them away and keep them for good.

During supper I felt so uncertain that I had Bell get Parker Gilbert on the wire. I asked him whether he could not have one of his partners, who knows Government bonds, come down here. He said that he himself was recovering from tonsillitis, but that he would have Mr. Bartow, a Morgan partner, call me this morning. Bartow is an expert on Government bonds, although Gilbert pointed out that Morgan's no longer deal in Governments.

I read a memorandum from Haas who points out that we have had so much trouble with the 2-7/8's and he believes that I should not take any risk at this time. He favors a 2-1/2 or 2-5/8.

Still worrying, I called up Earle Bailie at 8:45 this morning. He said he felt that I had been very wise in taking additional money as everybody had been fearful that for political reasons I would not do so. He really was not ready to talk, but he seemed to favor a 2-5/8. He said, "Have you not got a blank spot in 1950?" and I said, "Yes." And he replied, "It would seem logical for you to go from a 2-7/8 to a 2-3/4 and now drop to a 2-5/8. I asked him to call me at 12:45 New York time.

I decided that inasmuch as the President had asked Tom Corcoran to help on this radio speech that it would be sensible for me to give him the background on it and let him know that it was my idea and why I wanted the President to make this kind of a speech at this time. He asked me whether he could come over and work with Gaston today and I said, of course he could. He is very enthusiastic about the idea of the speech, but he says it must be handled carefully so that the enemy will not say, why

didn't you put the Employment Service in shape long ago? He said he asked Gaston this question and Gaston gave him a very satisfactory answer, viz: that the jobs in private industry were not available and now that they are, we are entering into a new phase of the Employment Service and the United States Government is going to help the unemployed get permanent jobs with private industry. (This is the best explanation that one can give to a bad situation.)

Every single person from New York has recommended a long 2-3/4 bond. Bell wants a long 2-3/4. I am the only person who is holding out against it. I cannot get the 2-7/8 out of my mind as they have been a headache ever since we issued them and whenever anything goes wrong in the bond market it has always been the weakest bond. I do not want to bring out a bond at this time that I will have to sit up nights with and nurse from now until November. The reason that I did not want to take any new money was to keep the bond market "sweet". I must not get out the kind of a bond which will keep the bond market in a turmoil for the next two months.

\* \* \* \*



Secretary Morgenthau - 9/ 4/36 - 2

5. Rural Rehabilitation: This program is designed to assist needy farm families, which do not require resettlement but whose income is insufficient to provide a satisfactory standard of living. From organization to July 31, the Resettlement Administration has supervised the extending of \$116.1 millions in rehabilitation advances; of this amount, certified vouchers for loans aggregated \$94.1 millions; certified vouchers for grants, \$15.9 millions; and unpaid loan commitments, \$6.1 millions. Up to August 14, allotments for emergency drought loans and grants amounted to \$7.7 millions. It is estimated that aggregate payments as a direct result of the drought will exceed \$40 millions by January 31, 1937.

6. Farm Debt Adjustment: This program assists debt-burdened farmers by adjusting their financial obligations through agreement of creditors and debtors. Two million dollars has been allocated to the Resettlement Administration for administrative expenses. Through June 30, 33,906 cases had been adjusted, resulting in a scaling-down of indebtedness from \$102.2 millions to \$76.3 millions. These adjustments were responsible for the payment of \$1.9 millions in taxes.

Summary of Financial Data

Program	Estimated cost	Funds available	Funds allotted to projects	Funds obligated	Funds expended
		49.0		39.2	
Land Acquisition				19.0	12.5
Land Development	41.7	22.2			
Rural Resettlement	114.5		24.9		
Suburban Resettlement			18.6		
Rural Rehabilitation					116.1
Farm Debt Adjustment		2.0			

(In millions of dollars)

Attachment

	<u>Old Program</u>	<u>New Program</u>
Authorized . . . . .		\$500 M
Appropriated . . . . .	296 M	440 M
To be transferred . . . . .	-50	+ 50
	266 M	490 M
Expended . . . . .	165	10
Unexpended . . . . .	81 M	460 M
Future expenditures (est.)	52	
Surplus (est.) . . . . .	29 M	

September 4, 1936.

(See Budget message of Rept. 2.)

Sept. 4, 1936

I called up Loomis and gave him the following names on Government debt, for Mr. Fahey:

Dr. Viner  
Dr. Burgess  
Prof. Williams, of Harvard University  
and the Federal Reserve of New York.

# TREASURY DEPARTMENT

92

INTER OFFICE COMMUNICATION

DATE September 4, 1936

TO The Secretary

FROM Miss Lonigan

Attached is a memorandum on Employment and Relief Policy.

It is Mr. Hopkins' present plan to sidetrack WPA before February. This is in line with his usual policy to sidetrack all programs before the criticism of them reaches its crest (CWA, FERA Works Program, drought relief, self-help, production-for-use).

In place of work relief, he is planning a program which will give him control of all unemployment policy. This will include the U. S. Employment Service, unemployment insurance, direct relief, and control of wages, hours, and child labor, in some kind of reconstituted NRA.

This new plan is in line with his quick shifts to new and larger programs, with a radical change in the type of program, so that it takes his opponents about a year to get the new plan clear enough in their minds to oppose him.

**EMPLOYMENT AND RELIEF POLICY**

For 1936 - 1937

The business cycle has entered the rapidly-rising phase. This necessitates a reorganization of employment and relief policies to new bases, different from those required for the low phase of 1933 and the initial recovery phase of 1933 - 1936.

There is danger that the government, having put forth strenuous efforts to bring about recovery, may prolong depression psychology long after the depression itself is over. This tendency to "overstay the market," to operate as bears in a bull market, does not hurt the market. It only affects the "bears." Sometimes curing depression psychology is more difficult than curing depression, since powerful vested interests and strong emotional commitments work against change.

The main aspects of employment policy are discussed below.

- Recovery in private industry,
- Development of new industries,
- Reserve employment where the labor market is out of balance,
- Division of available employment,
- Social insurance for regularly recurring hazards of the workers (in process),
- Relief for the most needy (in process).

Both the psychology and the economics of the rapid-recovery phase differ fundamentally from those of depression or early revival.

Employment policy cannot be based on employment statistics. After a serious depression it is not possible to use employment statistics without serious qualifications. Industries are changing too rapidly. The relation of large firms to small firms, industry to industry, and section to section, change so much that the meaning of the figures is not clear. In the lumber industry, large firms are barely holding their own but a multitude of small firms have grown up, with family labor, or a few workers. These are located chiefly in the South. They are reflected only slightly in employment reports, they provide a great deal of unreported employment, and they are providing it in new sections of the country. Meanwhile, large lumber companies are going into the pulp and paper industry to avoid competition.

Recovery in private industry is no longer an acute problem, and will not be again for a period varying from two to six years. A long period of prosperity is a reasonable hope, if hidden inflation can be controlled.

Reemployment in old firms is about completed. There remains only the need to encourage the reemployment that comes with the starting of new ventures.

The business cycle is usually thought of as V shaped, falling to a "low point," and rising steadily upward. It is rather U shaped, riding along at low levels for a considerable time after the turn, and then turning sharply upward at mounting rates.

Industrial recovery is now at the same point as at the end of 1922 and early 1923, starting on the steep upward slope of the U. Recovery will take place at a constantly increasing rate. Occasional setbacks will be for consolidation only, and will serve actually to prolong the upward movement, if not tampered with.

What workers need most, in the rapid recovery stage, is an efficient placement agency, to aid them in adjusting quickly to the inevitable shifts in industry, and to reduce the cost of transferring themselves from job to job.

The flux of industry is constant, and must remain so, but there is no reason why workers should bear the full cost of the change in lost time and lost money. An efficient employment service is perhaps the best single way to increase workers' total income.

This period of business prosperity will be marked by increased labor-saving, because labor-saving is a sign of prosperity. Workers displaced by improved techniques do not become unemployed. They drop down one or more steps in the employment system. What displaced workers most need is an efficient placement agency, to make this transition quick and easy, and, if possible, to find them jobs where they do not need to drop down in employment rank.

Labor-saving in no way adds to relief rolls, because it always goes along with increasing demand for labor. It never takes place until the demand for labor is high.

Actually, high relief rolls or work-relief rolls encourage labor-saving. Whenever labor becomes scarce, dear, or inefficient, employers increase labor-saving, and labor pays the full cost in lost total income.

During years of prosperity, the correctives for labor-saving are:

- Encouragement of new business ventures.
- Distribution of corporate savings.

These are accomplished far more effectively by public financial policy (taxation, interest) than by emergency employment programs.

The two essentials for development of new firms and industries are:

Incentives to risk-taking,  
Higher real income in mass-consumption areas.

The growth of new firms and new industries must equal or exceed the annual increase in working population if unemployment is to recede.

Incentives for risk-taking will increase as the supply of sheltered investment declines. Just so long as capital can get security of principal and a fixed return in government employment, it will not engage in risk-taking. It much prefers to get its secure return, and let the government take the losses in providing employment. As rapidly as the government withdraws from the investment field, capital will have to turn to industry, or foreign investment, or foreign trade. All these will create employment.

Higher real income in the mass-consumption areas depends first on low-priced food, then on low-priced housing. Workers create new industries with their surplus over bare necessities.

Purchasing power in the mass-consumption areas effects unemployment and industry much more than purchasing power in farm areas. All farm areas are partially self-sustaining. In the cities practically every necessity effects the cash system, and employment swings up or down with cash purchasing power.

Also, the cities buy practically all the service workers that are employed. Farmers do not support street cars, restaurants, or dry-cleaning establishments. Employment in the non-manufacturing industries responds to urban, not rural, purchasing power.

Urban mass consumption is really lower than consumption in rural areas. The extreme decline in urban purchasing power due to protracted unemployment and the high cost of living, is hidden in the "fallacy of the averages." The elaborate statistics proving that farmers are worse off than city workers do not bear examination. They measure only the high money-turnover in cities, which is not wealth. They ignore the violent inequalities of distribution, which leave city people who are below the "average" much worse off than people below average in the country.

The effect of work relief is to retard new industries, by increasing the dangers of risk-taking, and providing sheltered employment for capital through large bond issues.

It is not sound governmental policy to tighten the labor market at a time when industry is choosing between reemployment and labor-saving.

The total amount of reserve employment during the rapid-recovery phase of the business cycle should be very slight. Every encouragement should be given to employers to use workers instead of machines.

The Federal Government is at present providing employment for over 1,000,000 workers outside of the work-relief agencies. It is extremely doubtful if all reserve employment should go much higher. From 1,000,000 to 1,500,000 workers will provide all the reserve employment needed to take care of the labor surplus, if it is located in the right sections of the country. It may provide too much in the skilled trades.

It is not possible for all the Federal and local governments together to provide a good reserve employment program for 2,000,000 workers. There is not enough good engineering design. Volume employment of labor follows, at best, a year or two years after good engineering design. The PWA began too late to provide engineering design for its workers. The FERA-WPA hardly began at all. Some good engineering design was projected in the 1934 Works Program but it was never permitted to influence employment or work-relief policy. Even this work was not on a sound social-economic foundation.

Reserve employment should have the following characteristics:

It should be term employment only, like CCC, with the worker given no vested rights in permanent employment on a tax basis.

It should be for a shifting population, not a protected one. Reserve employment should be open to all the unemployed, not to a fixed class. With the use of term employment, all the unemployed should benefit within a limited time.

It should be provided on a strictly local basis, in terms of the economic situation in each locality. Labor surplus, like a housing surplus, is almost purely local. There may be a grave labor surplus in Manchester, New Hampshire, while there is a labor shortage in Schenectady. (At present government employment is provided most fully where the need is smallest.)

It should be completely divorced from all relief and welfare agencies. It should be related to the total employable population, never to relief rolls. The only effect of putting employment under relief agencies is to increase relief rolls.

The whole philosophy of reserve employment is in conflict with the philosophy of relief employment or welfare employment and must always remain so. Reserve employment as described here can be carried out only by agencies completely divorced from all connections with relief or "welfare."

Welfare employment seeks (unconsciously) to create a protected class, which shall be given protected employment out of tax funds. The effect is constantly to increase the drain on the productive system, to reduce the supply of self-supporting employment, and to increase the population demanding sheltered employment. There is no end to this process until the public finances break down. 97

The objective of reserve employment, on the other hand, is to place as many workers as possible in self-supporting industry, to maintain only a marginal group in reserve employment, to tighten the market ever so slightly, in order to encourage industry to hire more men, on a self-supporting basis. Its objective is a constantly diminishing supply of public employment, and a slowly rising wage level. Its wage philosophy is to start at the actual local rate (not the union rate), gradually blot up the supply, and slowly force rates upward, with a sound economic foundation to support them.

The reserve employment philosophy never forces rates above the existing market level, until after the total supply is absorbed. Even then it operates carefully to avoid encouraging labor-saving.

Reserve employment uses the principle of leverage to supply employment at key points, rather than the principle of high expenditures, to take care of a large number of workers (many of them never dependent on industry before) because high expenditures ultimately reduce the supply of self-sustaining employment.

Any attempts by the government to equalize the supply of labor must be done with the utmost delicacy, slow withdrawal of small amounts of surplus labor, just lightly enough to stimulate employers to offer more work. It is as delicate as trout fishing. Whenever the withdrawal of labor is overdone, the employer always take refuge in labor-saving. The fundamental difficulty in the workers' situation is that the employer no longer really needs labor. The big corporations know that already. The government must never do anything to help the other employers to find it out.

The purpose of reserve employment is to provide employment that is self-sustaining, that tends to perpetuate itself from its own earnings. The effect of welfare employment is to provide work that comes to a dead end, and must constantly be replaced by more government funds.

Reserve employment is always planned in relation to the total productive system, never in relation to the relief population.

In organization, reserve employment should include the present CCC, and a new agency, an urban CCC, which would hire men for a limited term, and put them to work on projects planned by their own division of engineering design, or good projects proposed by the city or State governments that do not replace normal services. It should operate only in those sections of the country where wage work is insufficient for the normal wage-earning population.

All the present apparatus of Federal projects and WPA employment could be discontinued, and employment from earlier WPA and WFC programs be allowed to end, as existing commitments are liquidated.

It is important that the available supply of employment should be fairly distributed. The remedies usually suggested for this are:

- Abolition of child labor,
- Shorter hours,
- Removal of aged from the labor market.

Although these policies are sound, false hopes have been aroused about them. They will not relieve present unemployment.

#### Shorter work week

Every effort put into shorter hours improves the national economy. Shorter hours are so valuable to the worker that they are worthwhile, even without immediate pay increases. But the benefits will include little or no reemployment.

If working hours are shortened by legislation, the law will have the following specific results:

Hours will be shorter in less efficient manufacturing industries, where hours are now abnormally long. This will provide some more employment for share-croppers and hill-folk in the Southern States. It will provide virtually no more employment in New England.

The law will have little effect in those mass-production industries where hours are now well below the legal minimum. It will have little effect on workers not working directly at machines. It will have little effect in sections of the country where labor-legislation has long been in force. In New York State, the bulk of workers are employed at shorter hours than the law requires.

Where the law has effect in efficient industries, it will tend to increase labor-saving, rather than reemployment.

The law will have no effect on retail stores, which will merely hire more part-time workers for busy hours. The law cannot be enforced against barber shops, theaters, and small firms.

Anyone who knows the cost of enforcement of factory laws in New York State knows that it is impossible to police an entire industrial system. The costs of law enforcement are far higher in non-factory industries or in rural areas.

Because benefits are slow and indirect, it is desirable to start a short-hours program as early as possible. It is also highly desirable to do it with the cooperation and consent of employers, to prevent labor-saving.

#### Child labor

The benefits of child-labor laws also are great, but new laws will not increase the supply of employment for present wage-workers. Abolition of child labor will draw workers from rural areas into the wage-earning class. It will have little or no effect on those sections of the country where unemployment is greatest.

There is no economic or social basis for the talk of keeping all 99 workers under 18 out of industry.

1. The school system (the only other occupation) does not know how to give them useful employment for the middle years of schooling. High school education is notoriously unprofitable.
2. There are too many people educated now for professional and white-collar jobs.
3. The cost of supporting teachers and pupils in unproductive work will fall on the lower middle classes. They can barely carry their present load. There can be no social advantage in raising the school-leaving age of 18.
4. The middle-aged are carrying an unjust load in the present economic system. Benefits should first be provided for them.

#### Old-age pensions

Old-age pensions benefit the entire economic system at points where it most needs strengthening.

#### Fair distribution of labor

Fair distribution of employment, like all other phases of employment is a regional, State, or local problem, as specifically regional as farming. The area where fair distribution of jobs is important is in the large metropolitan cities where the labor market is most crowded.

Fair distribution here means discouragement of all forces drawing new workers to the cities before local labor is absorbed. The most powerful forces drawing excess labor to the cities are:

Abolition of direct relief,  
WPA wage levels,  
Corporation hiring and firing policies.

Abolition of direct relief in Southern States and rural areas set up a population movement of destitute families from rural areas into the largest cities where they could get relief without attracting attention.

WPA (and FERA) work and wage policies also encourage this movement of population from rural to urban areas, and from self-sufficient employment to wage employment. The whole effect of FERA-WPA has been greatly to decrease the number of families which could maintain themselves without cash. It has greatly increased the supply of workers dependent on cash wages, potential competitors in the overcrowded labor markets for the cities.

#### Corporate unemployment

The remedy for corporate employment policies is taxation. Corporations which hire new men from Tennessee and Alabama, and leave their old workers on the relief rolls in Buffalo or Pittsburgh must be made to pay for those workers. Federal taxation of corporations and Federal contributions to direct relief will complete the balance sheet on these transactions.

See Mrs  
Fouquet when  
she returns



OTTO K. BITEL  
MANAGER

WORLD'S LARGEST HOTEL

THE  
STEVENS  
CHICAGO  
MICHIGAN BOULEVARD  
SEVENTH TO EIGHTH STREET

My dear Mr Haas

Miss Epps will send to you a memorandum on unemployment relief which has been proof-read and released by me. I should like to have it get to the Secretary as soon as you can conveniently release it. I think this Sunday night broadcast may have important implications for next year's unemployment-relief policies, about which the Secretary ought to be amply forewarned. It is risky putting such conclusions into a memorandum, but that is the only choice now.

Every body here has been very decent.

The Russian part of the Tour hasn't been in evidence. The chief trouble is vacations.

Sincerely yours

Edna Fouquet

September 4, 1936

Feis, Lochhead and Viner met with the Secretary to discuss Cable 831 received from Cochran, as follows:

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 4, 1936, 5 p.m.

NO.: 831

FOR SECRETARY OF THE TREASURY.

FROM COCHRAN.

ULTRA CONFIDENTIAL.

I called upon Minister of Finance Auriol this afternoon, at his request. Rueff and Baumgartner were present also. Auriol said that the United States had been the first to offer cooperation to him; but that "the way was barred" at the time we had our conversations - shortly after he had become Minister of Finance.

Minister Auriol said that now, through the conversations which Monick had in Washington and London, it had been ascertained that there seemed a good chance for agreement of a type that could be found acceptable to his country. Therefore his Ministry had drawn up a provisional draft of a pre-stabilization agreement for submission to us and to the British. Should the United States, Great Britain and France agree, then France would try to procure the adherence of the Netherlands and Switzerland, the other two gold-bloc countries.

The Minister of Finance said the immediate question is to know whether Secretary Morgenthau would prefer that the draft text be submitted to him through me secretly and unofficially in advance of a copy thereof being submitted through Monick secretly and unofficially to the British Government, or whether Secretary Morgenthau may prefer simultaneous submission of the two copies.

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The Minister told me that he would be glad to tell the British that before submitting the proposal to them he had obtained the approval of the United States. However, on the other hand he does not want to give the British any cause for criticism of the approach he makes.

The Minister is anxious that the whole matter be expedited so that if the agreement is consummated a decision may be reached with regard to drafting the French monetary law that would be required. On Monday September 7 a meeting of the Council of Ministers is to be held, and Auriol would be very appreciative if before then he could have an indication of the wishes of Secretary Morgenthau on this one point. Official submission of the propositions would be taken up only if and after unofficial approval of them.

Baumgartner and Rueff talked more freely with me in regard to the nature of the so-called agreement after we left the Minister's office. It appears that it is what might be called an "agreement of intention", and would involve a declaration by the governments of the United States, Great Britain and France. I would be expected that approximately the present rates would be maintained for the currencies of the British and the Americans. There would be envisaged a lowering of the French franc. In the agreement the second point calls for cooperation between the three banks of issue of the contracting countries. Each central bank would assume the task of holding its respective currency within certain limits subject to certain conditions.

The third point in the agreement would be something in the way of declaration that this step having been taken toward monetary stability, the way would be open to a lowering of the barriers to trade.

I have not seen the text of the agreement, so please do not accept the above as an entirely accurate description of the component parts. I asked the two permanent members of the Ministry for this information so that I might give Secretary Morgenthau enough of a description of the document to enable him to determine what his attitude should be in regard to the immediate question put to him.

In answer to my query Baumgartner informed me that the part of the agreement with regard to commercial policy matters is not interdependent with the points of fixing rates and

-3-

supporting the currencies of the respective countries. The French have drafted something which they think would meet the approval of the Secretary of State whose interest in lowering trade barriers has of course been well known to them, and which was conveyed fairly recently by the French Ambassador in Washington. Auriol's idea, as I have indicated in previous telegrams, is to have a scheme of "world monetary peace which would lead to world economic peace" include French devaluation.

END MESSAGE.

WILSON.

EA:LWW

The following reply was agreed upon:

September 4, 1936

TO: COCHRAN

FROM: SECRETARY OF TREASURY

IN REPLY TO YOUR CABLE EIGHT THREE ONE PLEASE INFORM MINISTER OF FINANCE AURIOL THAT YOU HAVE BEEN INSTRUCTED BY YOUR GOVERNMENT TO INFORM HIM THAT WE WOULD PREFER THAT DRAFT DOCUMENT MENTIONED IN CABLE EIGHT THREE ONE BE PRESENTED SIMULTANEOUSLY TO BOTH TREASURERS AND IN THE CASE OF THE UNITED STATES BE TRANSMITTED THROUGH YOU PERIOD FOR YOUR INFORMATION AND GUIDANCE PLEASE BEAR IN MIND THAT MONDAY SEPTEMBER SEVEN IS LABOR DAY AND ON TUESDAY SEPTEMBER EIGHT UNITED STATES TREASURY IS OFFERING TO THE PUBLIC A NINE HUNDRED MILLION DOLLAR BOND ISSUE PERIOD KEEP ME INFORMED BY CABLE OR TELEPHONE IF NECESSARY ON ANY DEVELOPMENTS

HENRY MORGENTHAU JR

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*Joseph file*

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DATE: September 4, 1936, 5 p.m.

NO.: 831

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FROM GOCHRAN.

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think would meet the approval of the Secretary of State whose interest in lowering trade barriers has of course been well known to them, and which was conveyed fairly recently by the French Ambassador in Washington. Auriol's idea, as I have indicated in previous telegrams, is to have a scheme of "world monetary peace which would lead to world economic peace" include French devaluation.

END MESSAGE.

WILSON.

EA:LWW

September 4, 1936

TO: COCHRAN  
FROM: SECRETARY OF TREASURY

IN REPLY TO YOUR CABLE EIGHT THREE ONE PLEASE INFORM MINISTER OF FINANCE AURIOL THAT YOU HAVE BEEN INSTRUCTED BY YOUR GOVERNMENT TO INFORM HIM THAT WE WOULD PREFER THAT DRAFT DOCUMENT MENTIONED IN CABLE EIGHT THREE ONE BE PRESENTED SIMULTANEOUSLY TO BOTH TREASURERS AND IN THE CASE OF THE UNITED STATES BE TRANSMITTED THROUGH YOU PERIOD FOR YOUR INFORMATION AND GUIDANCE PLEASE BEAR IN MIND THAT MONDAY SEPTEMBER SEVEN IS LABOR DAY AND ON TUESDAY SEPTEMBER EIGHT UNITED STATES TREASURY IS OFFERING TO THE PUBLIC A NINE HUNDRED MILLION DOLLAR BOND ISSUE PERIOD KEEP ME INFORMED BY CABLE OR TELEPHONE IF NECESSARY ON ANY DEVELOPMENTS

HENRY MORGENTHAU JR

MEMORANDUM

Friday, September 4, 1936

The Secretary called in Professor Viner and Mr. Lechhead to discuss Cable No. 831, dated September 4, received from Cochran in Paris. In view of the importance of this Cable he called Secretary Hull on the telephone to request that he take part in the discussion or designate someone to do so. As Mr. Hull was out at the time, Dr. Fels of the State Department was requested to come to the Secretary's Office to assist in preparing the form of the reply. Dr. Viner suggested the desirability of inviting Governor Eccles of the Federal Reserve Board to the discussion, but the Secretary pointed out that Governor Eccles was in Salt Lake City, Utah, and that on the occasion of Norman's recent visit to the United States, Eccles had stated to Norman that the question of stabilization was entirely in Secretary Horgenthau's hands and that he, Eccles, had nothing to do with this international phase of the situation.

The Secretary decided that in answering the specific question asked in the Cable that the French Minister of Finance be advised that the draft documents be submitted simultaneously to both the British and the American Treasury. This was thought to be the proper procedure, as if the draft was submitted to us before being submitted to the British there might be a feeling on the part of the British that the French and the Americans were working together against the British. The form of the answer to Cochran's Cable was agreed upon by all present. The Secretary mentioned that he did not care very much for Hordt's and did not have much faith in him, and thought that this would be a good

Sept. 4, 1936

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opportunity to arrange that any further negotiations be carried on without using Monick as an intermediary. In Cable 831 it was apparent any approaches would be made by the French Treasury to the United States Treasury through Cochran, so that in this manner Monick would be eliminated. Dr. Feis felt that Monick had served a useful purpose by keeping the door open for discussion of devaluation at a time when the French Government was not in a position to do so. However, now that the French Government had apparently swung over to the idea of devaluation as a means of correcting France's exchange position instead of pursuing the idea of controlling exchanges, that the French Government itself would now be in a position to communicate directly with the Treasury through Mr. Cochran without employing the services of Monick.

The Secretary brought out the fact that the Treasury financing, which would be announced on Tuesday, September 8, was an extremely important affair, and he did not like to feel that some action taken by France over the weekend would in any way interfere or hinder the success of this financing. For this reason he decided to draw Cochran's attention to the fact that Monday, February 7, was a holiday in New York, and would be followed on Tuesday by Government financing of over \$900,000,000.



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
PC 893.515/1185

September 5, 1936

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a letter dated August 3, 1936, from Mr. K. P. Chen, Chairman of the Chinese Monetary Mission, expressing his appreciation for the courtesies and facilities extended to him by officials of the Treasury Department during the visit of the Chinese Monetary Mission to this country.

Enclosure:  
From Mr. Chen,  
August 3, 1936.

**Department of State**

BUREAU

IN

PC

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

**TREASURY**

THE SHANGHAI COMMERCIAL AND SAVINGS  
BANK, LTD.

102 K

50, Ningpo Road  
Shanghai, China

August 3, 1936.

My dear Mr. President:

On behalf of the Chinese Monetary Mission to the United States, I wish to express to you our sincere thanks for all the courtesies and facilities extended to us by your Government during our stay in your country. We would mention especially Secretary Morgenthau and other Treasury officials for their helpful cooperation throughout the course of our discussions.

Immediately upon our arrival at Shanghai on July 11, we proceeded to Nanking and reported to our Government the results of our conversations in Washington. I am glad to say that both President Chiang Kai-shek and Minister H. H. Kung are very much pleased with the arrangement, which is already producing desired effects and which they believe will continue to work out to the benefit of both countries.

It is also gratifying to note that the general public is favorably impressed with the statement released simultaneously by the two Governments, and I am sure that such constructive cooperation will cement more closely our traditional friendly relationship.

Dr. P. W. Kuo and Mr. Y. C. Koo join me in sending you our highest esteem.

With kindest regards, I am

Respectfully yours,

K. P. CHEN  
Chairman  
The Chinese Monetary Mission

President Franklin D. Roosevelt  
The White House  
Washington, D. C.  
U.S.A.

BUREAU OF INTERNAL REVENUE  
OFFICE OF  
CHIEF, INTELLIGENCE UNIT

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September 8, 1936.

MEMORANDUM FOR MISS CHAUNCEY:

There is attached a copy of a memorandum  
which I wrote on the Philco Radio Company  
hearing immediately after the conference  
ended on September 3, 1936.



Enc.

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BUREAU OF INTERNAL REVENUE  
OFFICE OF  
CHIEF, INTELLIGENCE UNIT

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ELI-DW

September 3, 1936.

Memorandum in re: Philco Radio Company  
and related companies.

A conference was held in the office of the Secretary at 3:00 o'clock today, at which were present besides the Secretary, General Counsel Oliphant and myself, the following individuals:

Sayre M. Ransdell, Vice-President of the  
Philco Radio Company

C. Russell Feldmann, President of the  
Transitone Radio Company

John Ballantyne, Treasurer of the Philco  
Radio and Television Corporation

Edward L. Bernays, Public Relations Counsel

These gentlemen discussed the excise tax case which has been under investigation with respect to these companies and particularly detailed complaints which they had to make concerning the manner of investigation. They had with them the copy of the report of the revenue agents which had been sent to them by the office of Captain Bliss, Deputy Commissioner of Internal Revenue, indicating a tax liability of approximately \$1,200,000. They pointed out that there was attached to the report which they had received from the Bureau a copy of a paper which obviously had been secured by Bureau officers from the Radio Corporation of America files, and complained particularly about the close association between agents of the Bureau and representatives of that corporation who are their competitors and against whom they now have suits pending. They complained further about an investigation which was made in California by an agent of the Intelligence Unit with a view to locating a particular letter written by the President of the Philco Radio Corporation and about an investigation made in Detroit,

Michigan, at the Ford Plant by an agent of the Intelligence Unit with respect to the manufacture of their radios. They stated that these tactics tended to embarrass them in the transaction of their business and they were fearful lest it might lose for them certain customers. They stated that the Ford Company handles about 25% of their output and they seemed much concerned over the possibility of losing this account.

It was explained to them that in the course of investigations such as this it is necessary to contact customers and perhaps competitors; that they might rest assured that information is not given such persons concerning the business of the taxpayer; and that any information which the Radio Corporation of America might have was not received through any officer of the Internal Revenue Bureau. They specifically requested that if any further inquiries are to be made of customers or competitors, they be given an opportunity to furnish the information or to contact the persons to be interviewed, so that they might lessen the blow so far as they are concerned. They were told that the investigation probably is completed by this time and that there probably will be no further occasion for contacting such persons or corporations. They were assured that if occasion arises when it is felt that this should be done, consideration would be given their request. However, they were specifically told that no promise would be made and that it would be left entirely to our judgment as to whether we would consult them or make the contacts direct. They expressed themselves as satisfied with this assurance and the conference ended.

September 5, 1936

HM, Jr. called in Mr. Graves and said to him, "Chief Moran is sick and going away on a vacation. I think you had better move your desk down there for two or three months. The President's life has to be watched and if anything happens and the Chief goes against me, I want this protection. Get Wilson started."

He also said to Mr. Graves, "McIntyre said to me, 'I hope you will not make Col. Starling Chief of Secret Service.' Tuesday or Wednesday I will take you and Wilson over and introduce you to McIntyre."

September 8, 1936.

Mr. W. H. Moran,  
Chief, Secret Service Division,  
Treasury Department.

My dear Chief Moran:

After giving further careful consideration to the question of filling the position of Assistant Chief of the Secret Service Division following our conversation last week, I have concluded to proceed with the detail of Special Agent Frank J. Wilson, of the Intelligence Unit, to serve as Assistant Chief for the time being. I shall expect to have your full cooperation in this matter.

Mr. Wilson will report to you on Tuesday, September 8.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary

**PARAPHRASE OF TELEGRAM RECEIVED**

**FROM: American Embassy, Paris, France**

**DATE: September 5, 1936, noon**

**NO.: 833**

**RUSH.**

**FROM COCHRAN.**

**FOR THE SECRETARY OF THE TREASURY.**

Reference is made to telegram No. 337 of September 4, 7 p.m., from the Department.

On Tuesday, September 8, at 10:30 a.m., the French Ministry of Finance will hand to me the English text of draft document for cabling to you. Therefore you should have it at the latest on Wednesday morning. A copy of the text will be given to Monick in France, to take to London for delivery there to the British Treasury not earlier than September 9, next Wednesday.

**WILSON.**

**EA:LWW**

Paraphrase of Cable telephoned from Dr. Feis' Office 9:30 A.M.

Sept. 5, 1936

No. 833. Rush.

From Cochran.

Sept. 5, 1936, noon.

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WILSON

ek

September 5, 1936

My dear Mr. President:

Friday, September 4, we received through the State Department an inquiry from Paris in which Cochran, after seeing Auriol, put up the following proposal to me: that Auriol wished to know whether they should present a note on stabilization first to the United States Government or simultaneously to the United States Government and England. I am inclosing herewith copy of Cochran's cable to me and my answer to the same.

This morning, Saturday, September 5, I received the following cable:

"On Tuesday, September 8, at 10:30 A. M., the French Minister of Finance will hand to me the English text of draft document for cabling to you. Therefore you should have it at the latest on Wednesday morning. A copy of the text will be given to Monick in France, to take to London for delivery there to the British Treasury not earlier than September 9, next Wednesday."

I am looking forward to my visit with you at 9:15 Tuesday morning, September 8.

Respectfully,

The President,  
The White House.

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Respectfully,

The President,  
The White House.

September 4, 1936

TO: COCHRAN  
FROM: SECRETARY OF TREASURY

IN REPLY TO YOUR CABLE EIGHT THREE ONE PLEASE INFORM  
MINISTER OF FINANCE AURIOL THAT YOU HAVE BEEN INSTRUCTED  
BY YOUR GOVERNMENT TO INFORM HIM THAT WE WOULD PREFER THAT  
DRAFT DOCUMENT MENTIONED IN CABLE EIGHT THREE ONE BE  
PRESENTED SIMULTANEOUSLY TO BOTH TREASURIERS AND IN THE  
CASE OF THE UNITED STATES BE TRANSMITTED THROUGH YOU PERIOD  
FOR YOUR INFORMATION AND GUIDANCE PLEASE BEAR IN MIND THAT  
MONDAY SEPTEMBER SEVEN IS LABOR DAY AND ON TUESDAY SEPTEMBER  
EIGHT UNITED STATES TREASURY IS OFFERING TO THE PUBLIC A  
NINE HUNDRED MILLION DOLLAR BOND ISSUE PERIOD KEEP ME  
INFORMED BY CABLE OR TELEPHONE IF NECESSARY ON ANY DEVELOPMENTS

HENRY MORGENTHAU JR

September 4, 1936

TO: COCHRAN  
FROM: SECRETARY OF TREASURY

IN REPLY TO YOUR CABLE EIGHT THREE ONE PLEASE INFORM MINISTER OF FINANCE AURIOL THAT YOU HAVE BEEN INSTRUCTED BY YOUR GOVERNMENT TO INFORM HIM THAT WE WOULD PREFER THAT DRAFT DOCUMENT MENTIONED IN CABLE EIGHT THREE ONE BE PRESENTED SIMULTANEOUSLY TO BOTH TREASURIERS AND IN THE CASE OF THE UNITED STATES BE TRANSMITTED THROUGH YOU PERIOD FOR YOUR INFORMATION AND GUIDANCE PLEASE BEAR IN MIND THAT MONDAY SEPTEMBER SEVEN IS LABOR DAY AND ON TUESDAY SEPTEMBER EIGHT UNITED STATES TREASURY IS OFFERING TO THE PUBLIC A NINE HUNDRED MILLION DOLLAR BOND ISSUE PERIOD KEEP ME INFORMED BY CABLE OR TELEPHONE IF NECESSARY ON ANY DEVELOPMENTS  
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HENRY MORGENTHAU JR

**PARAPHRASE OF TELEGRAM SENT****TO: American Embassy, Paris, France****DATE: September 4, 1936, 11 a.m.****NO.: 334****FROM THE SECRETARY OF THE TREASURY.****FOR COCHRAN.**

You are requested to inform Cariguel that the inquiries regarding gold which you transmitted in your telegram No. 826 are receiving immediate attention. A prompt answer will be despatched.

**HULL**  
**(HF)**

**EA:LWW**

104G

Paraphrase of telegram sent

To: American Embassy, Paris

DATE: September 4, 7 p.m.

NO: 337.

Your 831 of September 4.

FOR COCHRAN FROM SECRETARY OF THE TREASURY.

You are requested to inform Auriol, the Minister of Finance, that your Government has instructed you to inform him that we would prefer that the draft document mentioned in cable 831 be presented simultaneously to both treasurers and be transmitted through you in the case of the United States. For your guidance and information please bear in mind that the seventh of September is Labor Day and that on Tuesday, September 8, the Treasury of the United States is offering a nine hundred million dollar bond issue to the public. Please keep me in informed on any developments, either by cable or by telephone if necessary.

EA:DJW

September 5, 1936

Mr. Mallet, Counselor of the British Embassy, called on the Secretary today. Lochhead was also present.

HM, Jr. said to Mr. Mallet: "We received a cable from Cochran and Secretary Hull thought it would be a nice thing for me to tell you about it. It is on the financial end. We got word yesterday that Auriol was thinking of presenting a note on stabilization to your Government and ours and the question was raised, Who should come first? We just want to let you know that we have kept the position that if anything should be done, it should be done simultaneously. That was just what I told Bewley. We got this message this morning that they are going to give our representative a note on Tuesday and Monick will hand your Government a note on Tuesday. Secretary Hull suggested that we send for you and inform you."

Mr. Mallet then inquired: "It is a proposal to our Government on stabilization and they will present it to you on Tuesday also?" HM, Jr. replied, "Do you know Monick?" Mallet answered, "I do not know him. This is very interesting."

HM, Jr. then said, "After months and months something is actually going to happen. The French Cabinet meets on Monday to take this up. I gather it will be entirely on stabilization and nothing else."

Mallet asked, "Would you like me to send a telegram to my Government," and HM, Jr. replied, "Yes. I am giving you this information so that you can pass it along to the British Treasury. It is confidential, but we feel we have gotten to a point where Bewley and I have confidence in each other and speak very frankly and since we have this information we want to pass it on to the British Treasury. It is our insistence that the thing be done with both countries and not first to us. The French sounded us out as to whether we wanted them to present the thing to us first and we said no."

If anything happens, Bewley may want to come back. My understanding with him was that if something really did happen he would come back. After all, they have to put it up to the French Cabinet and perhaps nothing really will happen."

The rest of the conversation was purely personal. HM, Jr. asked Mr. Mallet if he was any relation to the British Ambassador who was Ambassador at the time that Mr. Morgenthau's father was Ambassador to Turkey. Mr. Mallet replied that the man Mr. Morgenthau referred to was his uncle. They had a very pleasant chat.

Saturday  
September 5, 1936  
10:03 a.m.

H.M.Jr: Hello.

Operator: Dr. Burgess -

H.M.Jr: Hello, Burgess.

W.R.  
Burgess: How are you this morning?

H.M.Jr: Oh, I'm fine.

B: Well, I see the President's all cleared up.

H.M.Jr: What?

B: I see the President is all cleared up with what you told him.

H.M.Jr: Isn't he a darling?

B: (Laughs)

H.M.Jr: What?

B: That's very nice.

H.M.Jr: Yes, I - you know, (Laughs) He's - he couldn't keep a thing like that. (Laughs) And listen, I never said what he said I said. (Laughs).

B: (Laughs)

H.M.Jr: Well, that's all right.

B: That's the conclusion he drew.

H.M.Jr: What?

B: That's the conclusion he drew.

H.M.Jr: That's the conclusion he drew from my voice.

B: Yes, that's right.

H.M.Jr: Yes.

B: Yes, your sweet voice, he said, gave him that feeling, that's all.

H.M.Jr: Yes, well, he's feeling fine.

B: Yes.

H.M.Jr: Well, there don't seem to be any change this morning -

B: No, everything's fine.

H.M.Jr: Have you got any bright bond dealers around there?

B: Not right at the moment. I - Dudley Mills has been in -

H.M.Jr: Yes.

B: But his opinion hasn't changed any. They're just the same.

H.M.Jr: Well, what was his this morning?

B: Well, he thinks still a fifty-four fifty-seven.

H.M.Jr: Fifty-four fifty-seven?

B: Yes - he's - he's got a blue fox.

H.M.Jr: He has?

B: Yes, he's got rather a blue fox.

H.M.Jr: Fifty -

B: But his associate, Repp -

H.M.Jr: Yes.

B: Says fifty-six sixty-one.

H.M.Jr: And Repp says fifty-six sixty-one?

B: Yes, yes.

H.M.Jr: But Mills - what's the matter with Mills?

B: Oh, I don't know, he didn't sleep very well.

H.M.Jr: He didn't sleep very well?

B: Well, of course, you know, they've got a heavy commitment in these. You have to remember that about all these fellows you talk to - they -

H.M.Jr: Yes.

B: About half of them have got a heavy commitment of the rights.

H.M.Jr: I remember that - everybody except for the Federal Reserve, huh?

B: Well, Y - we've got a commitment in them too and our -

H.M.Jr: Sure, fifty-two million, haven't you?

B: And our tendency of course would be to - would be -

H.M.Jr: Oh, give me a little laugh, Burgess, for God's sake, don't -

B: (Laughs).

H.M.Jr: That's better, that's better.

B: Yes, we tend to be conservative on it.

H.M.Jr: Yes.

B: But it's awfully hard to get an objective view. They used to say on this thing, you know, you ask the market what to do and then you write a rate one eighth lower and you're all right.

H.M.Jr: One eighth lower?

B: One eighth lower than the market.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: Well, boiling down everything that you've talked to and listed to, what's your advice.

B: I'd do just the same as I suggested yesterday.

H.M.Jr: Fifty-six - ?

B: Fifty-six fifty-nine -

H.M.Jr: Yes, well that's the way I feel.

B: I think that's conservative, very careful and it's sure-fire.

H.M.Jr: Well, that takes care of Mills.

B: Yes.

H.M.Jr: And that takes care of Rentschler -

B: Pretty much, yes.

H.M.Jr: You see, neither of those fellows liked this idea of going out beyond sixty-one.

B: That's right, yes.

H.M.Jr: Doesn't it?

B: That's right.

H.M.Jr: I mean, it really takes care of both of them.

B: Well, it takes care as much as you want to of them, anyway.

H.M.Jr: Yes.

B: Now, you'll always get on a thing like this - you'll get some way over to the right and some way over to the left and some in the center.

H.M.Jr: Yes.

B: Now, this is the center.

H.M.Jr: What are you talking about, the Spanish Revolution or the bond market?

B: (Laughs) Well, there's a right and left and center in everything.

H.M.Jr: I see.

B: But this - this is a 'happy medium'.

H.M.Jr: Yes - now, in talk - I see the Press this morning, of course, they write it for Tuesday morning.

B: Yes.

H.M.Jr: Now, is it - is it good or bad for me to say that these rights are selling at a one point profit? Now, would you say it would show the confidence that the bondholders - the rights have in this thing or wouldn't you say that?

B: No, I wouldn't - I would - I just wouldn't say anything this morning, I think.

H.M.Jr: You wouldn't say anything?

B: Because if you say that they'll think you were playing to keep up your courage or something. They'll think it's salesmen's talk. The less - the less you talk about it now the better.

H.M.Jr: Well, as a matter of fact when these rights sell at one point profit that's about as big as they've ever sold, isn't it?

B: Well, that's just about as big, yes, yes.

H.M.Jr: What?

B: But I certainly wouldn't say anything about it, because the market might be expecting something different, you know?

H.M.Jr: Yes.

B: I think it is expecting a long bond.

H.M.Jr: Yes.

B: But I wouldn't mention it, I think. I think it makes a bad impression.

H.M.Jr: Well, I tell you - the way - the last day or two, I mean my confidence in the market has steadily grown from the way the market has acted.

B: Yes.

H.M.Jr: I have never seen anything like it.

B: Yes.

H.M.Jr: And somebody drew my attention to what Moody said here recently. I mean they said Moody had some article about - that we're not going to sell many more bonds.

B: Yes.

H.M.Jr: I didn't see it but somebody talked about it.

B: Yes, yes.

H.M.Jr: Well, I think we're all set.

B: I talked to - oh, Morris Tremaine called me up this morning.

H.M.Jr: How is my old friend Morris, the old lumber dealer?

B: Oh, Morris is swell. Did you see the piece about him in the New Yorker?

H.M.Jr: Oh, I loved it.

B: Wasn't that a swell piece? (Laughs)

H.M.Jr: Oh, I loved it. You know I know Morris, I've campaigned with him, you know, two campaigns?

B: Yes - he says - he says the New York State budget is going to balance by next June or at least the next calendar year.

H.M.Jr: There's nobody I'd rather tease than Morris Tremaine, he has absolutely no sense of humor.

B: He is great, isn't he? (Laughs)

H.M.Jr: Yes.

B: (Laughs) Yes.

H.M.Jr: Did he have anything to say on the Federal thing?

B: Oh he - yes, he -

H.M.Jr: Yes, yes.

B: - that the budget would probably balance in thirty eight.

H.M.Jr: Now the - the French thing - the French thing is better today Lochhead tells me.

B: They're simmering along.

H.M.Jr: Yes.

B: A million - two million.

H.M.Jr: Yes - thank you.

B: But -

H.M.Jr: Well, I think we'll put the mimeograph to work, and we'll get the thing started.

B: I think that's right.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: So, well - we'll all hold our breath.

B: Well, we don't need to. I think we'll have a splendid weekend and perfect confidence.

H.M.Jr: You feel very confident about this, don't you?

B: Oh very, yes.

H.M.Jr: What?

B: Very.

H.M.Jr: Very?

B: Yes.

H.M.Jr: The President is very much pleased with it. I mean -

B: I think it's just right.

H.M.Jr: He likes it.

B: Yes, that's fine. I'm glad -

H.M.Jr: And he liked the reaction to the announcement of four hundred million.

B: That's fine.

H.M.Jr: Yes, he was very much pleased.

B: Good.

H.M.Jr: And - he's - you could tell from his announcement, I mean he's -

B: Sure.

H.M.Jr: He's feeling very cocky.

B: Yes, yes,

H.M.Jr: All right.

B: Fine.

H.M.Jr: Thank you.

B: Goodbye.

H.M.Jr: Goodbye - hello?

B: Yes.

H.M.Jr: I'm very, very much obliged for all the help you have given me.

B: Oh, you're entirely welcome. It's been lots of fun, hasn't it?

H.M.Jr: Yes, it has. But I appreciate all the time and thought and energy.

B: Well, thank you so much.

H.M.Jr: Well, thank you so much.

H.M.Jr: Goodbye.

September 5, 1936

Just before the press conference the idea occurred to Mr. Morgenthau to point out to the newspaper men that a year ago the Treasury offered a 2-3/4 10-12 year bond; in March, a 2-3/4 12-15; in June 2 3-/4 15-18 and now, one year later, he is offering a 2-3/4 20-23. He wrote these offers out in his own handwriting and his memorandum is attached. Copy of the press conference is also attached, in which he said, in connection with his memorandum, that he knew of no better way to measure the constantly growing confidence in the Government's credit than the successive lengthening of the bond with the same coupon.

2 3/4 of 1945/47 - 10-12 yr. Bond  
2 3/4 of 1948/51 - 12-15 yr. Bd.  
2 3/4 of 1951/54 - 15-18 yr. Bd.

101. - 101.2

REPORT ON SECRETARY MORGENTHAU'S PRESS  
CONFERENCE OF SEPTEMBER 5, 1936.

Secretary gave the newspapermen copy of press service #830, announcing the terms of September 15th financing.

Q. Will you explain this first paragraph "with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which 1 1/8% Treasury notes of Series D, 1936, maturing September 15, 1936, are tendered in payment and accepted".

A. Well, what we have done in the past has been the practice of the Treasury of long standing on over-subscriptions. In order to make them an even percentage we increase them up to but not to exceed 10%. The maximum we might take would be four million dollars extra but in order to give it an even amount it's understood that we may take up to 10% in excess of the amount.

Bell: I did not quite understand his question.

Gaston: I think he is talking about the exchange privilege.

Bell: That gives the Secretary the right to accept all exchange subscriptions up to the 914 million dollars of maturing notes; in other words, the issue is 914 million dollars potentially.

Q. That is the maximum?

Bell: Yes; the 10% comes in on the 400 million dollars.

H.M.Jr.: I would like to point out to you gentlemen this, that just a year ago we offered a 10-year bond, 2-3/4. Just a year ago this September we offered a 2-3/4% 10-12-year bond. Then we came along in March and offered a 2-3/4% 12-15 and then in June of this year we offered a 2-3/4% 15-18 and now in September, just twelve months later we are offering a 2-3/4% 20-23 and I don't know of any better way to measure the

- 2 -

constantly growing confidence in the Government's credit than the successive lengthening of the bond with the same coupon. After all in one year we have just doubled the length of the bond. A year ago last September we got out a 10-12 and now we come along, a year later, and get out another 2-3/4% and get out a 20-year bond of just twice as long in 12 months and I have every reason to think it will be successful.

Q. Your 2-3/4--12-15 is selling about 102 or 102 1/2--  
selling at a premium.

A. Oh, yes.

Q. So on the basis of present bond market it just  
about fits into it.

A. That's what we figure; we figure it is reasonably priced, but I again want to repeat that we have gone from September 1935 with a 10-year bond to September 1936 with a 20-year bond with the same coupon. We have doubled the call-date of the bond in 12 months and I say I don't know of a better way to measure the confidence of the investing public in the Government's credit than that particular yardstick.

Q. You can call it increasing confidence?

A. Yes, I say this strongly proves it.

Q. As a matter of fact people either have confidence in Government bonds or they don't. Isn't that true?

A. True.

Q. So it isn't a question of sound or greater confidence.

A. I say it's increasing.

Q. Do you think the money market has anything to do with it at all?

- 3 -

- A. I think there are a lot of things, but I think the answer is there is constantly increasing confidence in the Government's credit. I say that this demonstrates it and proves it.
- Q. I don't agree but I guess it's all right because I believe you either have confidence in a government bond or you don't and the money market is what reflects the confidence.
- A. This is off the record. If they had confidence in September of last year why couldn't we have sold a 20-year bond last year?
- Q. Because they could lend their money at lower rates.
- A. If you don't mind, I prefer my interpretation.
- Q. Is this an announced policy; is this the Treasury policy as carried out last year?
- A. Yes, this is what we have done and if we have done it I suppose it's policy.
- Q. Everything you say today is for Tuesday morning's release?
- A. Strictly, please.
- Q. What are the HOLC requirements?
- A. I don't know, do you, Dan?
- Bell: Probably between five and ten million dollars a month.
- Q. Running over a year?
- Bell: Yes, but running over a year there will be repayments which will largely take up those, so at the end of twelve months we will probably not have any holdings of HOLC bonds.
- Q. Is the purpose of that to get a lower interest rate than they could sell their own bonds?

H.M.Jr.: No, they have not been equipped themselves-- for background, I don't want to be quoted--they are not equipped particularly to go into the money market and we can do it for them better and can get money for them cheaper and it is more economical for the taxpayer to have us do it in a wholesale way and take care of their needs than have them go into the market and get five million dollars a month. It saves them money; saves the taxpayer, and everybody else, and it is a much more efficient way of handling it than having them go in and try to get that amount of money each month.

Q. Have you anything to say for use before Tuesday on the story that the Federal Reserve banks are not earning enough money to pay their dividends?

A. That's the story. You know I am no longer connected with the Federal Reserve Board.

Q. They more or less attribute it to low interest rate on Government securities.

A. No. You let somebody over there, whoever is acting chairman, talk.

Gaston: Father Coughlin will probably talk.

H.M.Jr.: Can we quote that, Mr. Gaston? Everybody all right. I hope you have a good Labor Day without any labor.

A. You certainly did your best to spoil it!



THE SECRETARY OF THE TREASURY  
WASHINGTON

September 8, 1936.

CONFIDENTIAL

Dear Mr. President:

In order to place the Treasury in funds to meet the September 15 maturity of about \$514,000,000 of Treasury notes, and to provide for other expenditures authorized by law, I propose, subject to your approval, under authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, to offer for subscription a series of 20-23-year 2-3/4 percent Treasury bonds.

The bonds will be offered for cash to the amount of \$400,000,000, or thereabouts, and the issue will also be open for the exchange of the maturing notes. The bonds will be dated September 15, 1936, and will mature September 15, 1959.

The authorizing act provides that bonds may be issued only with the approval of the President. Accordingly, I trust that the proposed issue will meet with your approval. It is my intention to make public announcement of the offering on Tuesday, September 8.

Faithfully yours,

Secretary of the Treasury.

The President,

The White House.

APPROVED: *Sept 5, 1936*  
*Franklin D. Roosevelt*

Saturday  
September 5, 1936  
10:03 a. m.

HMjr: Hello

Operator: Dr. Burgess -

HMjr: Hello, Burgess

W. R. Burgess: How are you this morning?

HMjr: Oh, I'm fine.

B: Well, I see the President's all cleared up.

HMjr: What?

B: I see the President is all cleared up with what you told him.

HMjr: Isn't he a darling?

B: (Laughs)

HMjr: What?

B: That's very nice.

HMjr: Yes, I - you know, (Laughs) He's - he couldn't keep a thing like that. (Laughs) And listen, I never said what he said I said. (Laughs)

B: (Laughs)

HMjr: Well, that's all right.

B: That's the conclusion he drew.

HMjr: What?

B: That's the conclusion he drew.

HMjr: That's the conclusion he drew from my voice.

B: Yes, that's right.

HMjr: Yes

B: Yes, your sweet voice, he said, gave him that feeling, that's all.

HMjr: Yes, well he's feeling fine.

B: Yes

HMjr: Well, there don't seem to be any change this morning -

B: No, everything's fine.

HMjr: Have you got any bond dealers around there?

B: Not right at the moment. I - Dudley Mills has been in -

HMjr: Yes

B: But his opinion hasn't changed any. They're just the same.

HMjr: Well, what was his this morning?

B: Well, he thinks still a fifty-four fifty-seven.

HMjr: Fifty-four fifty-seven?

B: Yes - he's - he's got a blue fox.

HMjr: He has?

B: Yes, he's got rather a blue fox.

HMjr: Fifty -

B: But his associate, Repp -

HMjr: Yes

B: Says fifty-six sixty-one.

HMjr: And Repp says fifty-six sixty-one?

B: Yes, yes

HMjr: But Mills - what's the matter with Mills?

B: Oh, I don't know, he didn't sleep very well.

HMjr: He didn't sleep very well?

B: Well, of course, you know, they've got a heavy commitment in these. You have to remember that about all these fellows you talk to - they -

HMjr: Yes

B: About half of them have got a heavy commitment of the rights.

HMjr: I remember that - everybody except for the Federal Reserve, huh?

B: Well, I - we've got a commitment in them too and our -

HMjr: Sure, fifty-two million, haven't you?

B: And our tendency of course would be to - would be -

HMjr: Oh, give me a little laugh, Burgess, for God's sake, don't -

B: (Laughs)

HMjr: That's better, that's better.

B: Yes, we tend to be conservative on it.

HMjr: Yes

B: But, it's awfully hard to get an objective view. They used to say on this thing, you know, you ask the market what to do and then you write a rate one eighth lower and you're all right.

HMjr: One eighth lower?

B: One eighth lower than the market.

HMjr: Yes

B: Yes

HMjr: Well, boiling down everything that you've talked to and listened to, what's your advice?

B: I'd do just the same as I suggested yesterday.

HMjr: Fifty-six - ?

B: Fifty-six fifty-nine -

HMjr: Yes, well that's the way I feel.

B: I think that's conservative, very careful and it's sure-fire.

HMjr: Well, that takes care of Mills -

B: Yes

HMjr: And that takes care of Rentschler -

B: Pretty much, yes.

HMjr: You see, neither of those fellows liked this idea of going out beyond sixty-one.

B: That's right, yes.

HMjr: Doesn't it?

B: That's right.

HMjr: I mean, it really takes care of both of them.

B: Well, it takes care as much as you want to of them, anyway.

HMjr: Yes

B: Now, you'll always get on a thing like this - you'll get some way over to the right and some way over to the left and some in the center.

HMjr: Yes

B: Now, this is the center.

HMjr: What are you talking about, the Spanish Revolution or the bond market?

B: (Laughs) Well, there's a right and left and center in everything.

HMjr: I see.

B: But this - this is a 'happy medium'.

HMjr: Yes - now, in talk - I see the Press this morning, of course they write it for Tuesday morning.

B: Yes

HMjr: Now, is it - is it good or bad for me to say that these rights are selling at a one point profit? Now, would you say it would show the confidence that the bondholders - the rights have in this thing or wouldn't you say that?

- B: No, I wouldn't - I would - I just wouldn't say anything this morning, I think.
- HMjr: You wouldn't say anything?
- B: Because if you say that they'll think you were playing to keep up your courage or something. They'll think it's salesmen's talk. The less - the less you talk about it now the better.
- HMjr: Well, as a matter of fact when these rights sell at one point profit that's about as big as they've ever sold, isn't it?
- B: Well, that's just about as big, yes, yes.
- HMjr: What?
- B: But I certainly wouldn't say anything about it, because the market might be expecting something different, you know?
- HMjr: Yes
- B: I think it is expecting a long bond.
- HMjr: Yes
- B: But I wouldn't mention it, I think. I think it makes a bad impression.
- HMjr: Well, I tell you, the way - the last day or two, I mean my confidence in the market has steadily grown from the way the market has acted.
- B: Yes
- HMjr: I have never seen anything like it.
- B: Yes
- HMjr: And somebody drew my attention to what Moody said here recently. I mean they said Moody had some article about - that we're not going to sell many more bonds.
- B: Yes
- HMjr: I didn't see it but somebody talked about it.
- B: Yes, yes

HMjr: Well, I think we're all set.

B: I talked to - oh, Morris Tremaine called me up this morning.

HMjr: How is my old friend Morris, the old lumber dealer?

B: Oh, Morris is swell. Did you see the piece about him in the New Yorker?

HMjr: Oh, I loved it.

B: Wasn't that a swell piece? (Laughs)

HMjr: Oh, I loved it. You know I know Morris, I've campaigned with him, you know, two campaigns?

B: Yes - he says - he says the New York State budget is going to balance by next June or at least the next calendar year.

HMjr: There's nobody I'd rather tease than Morris Tremaine, he has absolutely no sense of humor.

B: He is great, isn't he? (Laughs)

HMjr: Yes

B: (Laughs) Yes

HMjr: Did he have anything to say on the Federal thing?

B: Oh he - yes, he

HMjr: Yes, yes

B: - that the budget would probably balance in thirty eight.

HMjr: Now the - the French thing - the French thing is better today Lochhead tells me.

B: They're simmering along.

HMjr: Yes

B: A million - two million

HMjr: Yes - thank you.

B: But -

HMjr: Well, I think we'll put the memo-graph to work, and we'll get the thing started.

B: I think that's right.

HMjr: Yes

B: Yes

HMjr: So, well - we'll all hold our breath.

B: Well, we don't need to. I think we'll have a splendid weekend and perfect confidence.

HMjr: You feel very confident about this, don't you?

B: Oh very, yes.

HMjr: What?

B: Very

HMjr: Very?

B: Yes

HMjr: The President is very much pleased with it. I mean -

B: I think it's just right.

HMjr: He likes it.

B: Yes, that's fine. I'm glad -

HMjr: And he liked the reaction to the announcement of four hundred million.

B: That's fine.

HMjr: Yes, he was very much pleased.

B: Good

HMjr: And - he's - you could tell from his announcement, I mean he's -

B: Sure

HMjr: He's feeling very cocky.

B: Yes, yes

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HMjr: All right.

B: Fine

HMjr: Thank you.

B: Goodbye

HMjr: Goodbye - hello?

B: Yes

HMjr: I'm very very much obliged for all the help you have given me.

B: Oh, you're entirely welcome. It's been lots of fun, hasn't it?

HMjr: Yes, it has. But I appreciate all the time and thought and energy.

B: Well, thank you so much.

HMjr: Goodbye

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Saturday, September 5, 1936.  
9/4/36.

Press Service  
No. 8-29

Secretary of the Treasury Morgenthau announced last evening that the tenders for \$50,000,000, or thereabouts, of 273-day Treasury bills, dated September 9, 1936, and maturing June 9, 1937, which were offered on September 2, were opened at the Federal Reserve banks on September 4.

The total amount applied for was \$140,137,000, of which \$50,147,000 was accepted. The accepted bids ranged in price from 99.906, equivalent to a rate of about 0.124 percent per annum, to 99.897, equivalent to a rate of about 0.136 percent per annum, on a bank discount basis. Only part of the amount bid for at the latter price was accepted. The average price of Treasury bills to be issued is 99.901 and the average rate is about 0.130 percent per annum on a bank discount basis.

--oOo--

September 5, 1936

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The Secretary having heard of the great number of passengers who would be landing at the docks in New York over the Labor Day holiday instructed Ballinger to go to New York to represent him and see that the people were treated courteously while the Labor Day rush was on. He suggested that if necessary additional inspectors should be brought from Boston and Philadelphia.



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**HOTEL NEW YORKER**

THIRTY-FOURTH STREET AT EIGHTH AVENUE, NEW YORK

9/5/36

Dr. W. Graves:

I took the 11:00 a.m. plane for New York; reached the Customs House at 2:05 p.m., and at 3:30 we had our program worked out for Sunday, Monday and Tuesday. I had called Mr. Stuart before leaving Washington and he had all necessary data on ships and passengers

For Tuesday we have agreed to assign all Inspectors to baggage duty except the minimums required to make necessary merchandize delivery at the freight piers, and to supervise the work very closely, making frequent shifts from pier to pier as necessary. Since as Tuesday is the big day I expect to remain here until then and see it through. I believe we can manage the situation satisfactorily without outside help, and would appreciate if you could advise the Secretary to that effect. Sincerely, Ed. J. Ball

ready for me when I arrived.  
Summarized, the situation is  
as follows:

Day	Ships	Passengers
Sunday	4	2919
Monday	7	2739
Tuesday	21	9156

Sunday and Monday offer  
no serious difficulties. The  
Queen Mary is the only big  
ship (on Monday) with 1925  
passengers.

*Handwritten initials and scribbles*

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

New York, New York,  
DATE September 8, 1936.

TO Mr. Morgenthau, through Mr. McReynolds

FROM Mr. Ballinger

In line with our conversation on Saturday morning, September 5th, I took the plane at eleven o'clock for New York, reached the Custom House at five minutes past two where, through telephonic arrangements made before leaving Washington, I met the Assistant Collector, the Assistant Surveyor, and the heads of divisions in the Collector's and Surveyor's offices who are responsible for the baggage work on the piers.

There was also ready for me a list of the vessels due to arrive on Sunday, Monday and Tuesday, the scheduled hours of arrival, and the number of passengers they were carrying. With these data at hand, we planned our program which has worked out very satisfactorily, as will be indicated hereafter.

The work to be performed on Sunday and Monday offered no serious problems. The steamer Statendam, which arrived at Hoboken Sunday morning, carrying 1471 passengers, and the Queen Mary, which docked at 9:05 A. M. on Monday, were the only large vessels involved. The work of inspecting and passing baggage moved smoothly and quickly, so that with the exception of the Queen Mary, the piers were cleared and all essential work completed within an hour and a half after the arrival of each vessel and, in several cases, within one hour of the actual docking time. In the case of the Queen Mary, she docked at 9:05 and, with the exception of a few stragglers, all passengers and baggage had been passed by 11:45. There were no calls for inspectors after 11:30. It can not be concluded from this that any passenger was occasioned a wait of two hours and forty minutes, for all the baggage was not discharged from the vessel until about 10:45, and at no time did I see the passengers, whose baggage had been discharged, have to wait more than a few minutes for an inspector.

Tuesday, of course, was the big day, with a total of something over 9100 passengers disembarking at the Port of New York. The first ship to discharge passengers was the Scythia which docked at 7:10. Work was not started on this vessel by customs employees before eight o'clock because the steamship company did not wish to pay extra for overtime. By this time, however, all the baggage had been discharged from the vessel and was placed on the dock ready for identification by the passengers and inspection by the customs officers, with the result that the work was virtually completed at 9:30. This was about the average time required to complete the inspection of passengers' baggage on all vessels docking during the day, except the Swedish-American line

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ship, Kungsholm. The Kungsholm docked at 9:20 and all work was entirely completed at 12:50, a total elapsed time of three hours and thirty minutes. There were 1220 passengers on the Kungsholm and I particularly noted that baggage was still being discharged from the hold of the vessel as late as 11:15.

By twelve o'clock I had personally visited seven piers and had been currently advised by telephone of the progress made on all the other piers, twenty in all, which were involved. In no case did I observe a passenger who had to wait more than forty-five minutes for a customs inspector after he got in line, that is to say, that so far as I was able to observe no passenger was delayed on account of customs requirements longer than one hour from the time he had located his baggage until the baggage had actually been cleared and delivered. This maximum was only reached on the Kungsholm.

Most of the passengers seemed to accept the meeting of customs requirements with very good grace. In the case of one man who was particularly vehement in his protests that he had been required to wait "hours" for customs inspection, I got him off to one side and asked him to be perfectly frank and tell me just exactly how long he had had to wait. After figuring it out very carefully, he found that he had actually waited twenty-five minutes, whereupon he quieted down and, inasmuch as the inspector had by that time passed his baggage, left the pier with a smile. This was more or less typical.

There is the other side, however, where a passenger, as in the case of one of the DuPonts who arrived this morning, disputed the decision of an appraiser with respect to some silver he was importing into this country, and thereby kept the appraiser and one inspector away from their normal duties for nearly three quarters of an hour. This, of course, was a friendly dispute, no improper feeling being displayed at all, but Mr. DuPont could not be satisfied until he had consulted his attorney and had talked with the Deputy Surveyor in Charge at the pier.

Considering the fact that approximately 9100 passengers were involved, and that there were available at any one time not more than 270 inspectors for actual baggage examination work, or an average of one inspector to every thirty-four passengers and that, so far as I was able to observe, there was no cause for complaint on any of the piers, I feel that the customs employees are to be commended for the manner in which they handled a really difficult job. All the responsible officers on the Surveyor's force, from the Surveyor on down, except those whose duties required that they be elsewhere, were on the piers doing everything they could to facilitate the movement of the baggage. In its final analysis, the problem resolved itself

into one of careful planning and real supervision, rather than a need for additional employees.

I do not wish to burden you with a detailed report, but I have some ideas which, if they could be adopted, would, I believe, permanently improve the existing conditions in New York, and which I hope to present to you within the next few weeks.

*E. C. Ballinger*

Labor Day

Random and miscellaneous observations  
suggested in connection with the  
Reemployment program.

Perhaps further investigation will call  
for revision of some of my first  
ideas.

Upm

*File up folder*

*Xref on cur's  
folder + file  
in Emp Relief  
✓<sub>3</sub>*

September 7, 1936 114

For the Secretary:

The United States Employment Service followed up the President's speech of yesterday with a telegram to their state directors announcing the allocation of \$2,500,000 for the intensification of employer-contacts and urging prompt action in submitting estimates of funds needed for doing the job. Emphasis was principally on increased personnel and the maintenance of high professional standards in the prosecution of the task.

Following the allocation of \$1,500,000 for reinterviewing, the Employment Service sent out rather elaborate and detailed suggestions for the conduct of the reinterviewing program, a summary of interviewing procedure, a summary of reporting procedure, and of procedures under the new WPA program. It is to be "a professional job of high order". The bulk of the work is to be done by December 1 and the complete record must be available by December 31.

(Curiously enough, at the very time that state directors are being asked to submit estimates for additional personnel to handle this program, the New York papers complain of dismissal on four day notice of large numbers of the staffs of the National "employment Service and State Employment Service in that state).

The WPA Bureau of Industrial Relations in New York seems to be going direct to industry in an effort to get business to

employ WPA workers. Whether there is any coordination between its efforts and those of the Employment Service I do not know. I shall want to talk to Colonel Somervell about that when I am in New York.

The United States Employment Service looks upon itself as a long-time permanent agency to be developed slowly and soundly-- with the maintenance of professional standards as a major consideration. Their emergency activities seem to be two --- classification and clearance for PWA and WPA projects; and furnishing workers to private industry. The matter with which I am principally concerned, as I understand it, is the latter.

There are notable instances of contributions by the Service to increases in private employment, or at least its regularization. They have done well in instances of providing strawberry pickers in North Carolina, waiters here and there for hotel banquets, Saturday and holiday department store help, and some more important enterprises, such as collecting skilled workers for the Sun Shipbuilding outfit who are making Coast Guard cruisers. With more time and money to devote to visits to business men, the service of the USES can be improved. They look on this more as fitting men into proper jobs than as actually increasing the number on payrolls. An increase in placements by USES does not mean that employers have been induced to add employees but merely that they have made use of the Employment Service in securing them. Better professional practice, but no very substantial gain in terms of relief load.

Any gain is a gain, however, and there is something to be said for intensifying the effort. There will not be very much of anything growing out of the expenditure of \$4,000,000 by the USES which will sink in on the public consciousness or that of employers before the election. The intensified effort will probably not be translated into increased visits to employers for some weeks. First there must be job analysis, labor reinterview (in the case of WPA workers) training of new Employment Service personnel (which personnel will either have to be dropped when the \$4,000,000 is gone, or new money will have to be secured to keep them at work), researches and surveys, and professional standardization. In these things there is more interest than in a quick emergency job of getting men back to work.

(To redefine the operations and jobs in industry and trade, to develop an accurate terminology, and a reclassification of occupations for statistical use, to construct from existing materials a workable occupational index for use in employment office placement work and in the compilation of statistics for the labor market, to improve the methods by which the presence of significant occupational characteristics can be determined, -to-demonstrate under Public Employment Service conditions the practical usefulness of the techniques, classifications, standards, and procedures developed by research --- these are the sort of things which mean something to the professionals in the Employment Service.)

(As an example -- one of the profound suggestions for interviewing applicants is this: "It is usually recommended that interviews be held at whatever time is convenient for the applicant")

The New York Sun survey of employment reaches the same conclusion which business organization has reached -- that there is not nearly as much unemployment as generally supposed. "Business", they say, " has been putting men back to work by the millions". The two chief reasons more have not been put back to work are "excessive taxation" and "the use of the taxpayer's money to set up shop against the taxpayer". Organized business will be busy the next month pounding those two things home, and are not likely to be much interested in cooperating in a drive to reduce the load of unemployment and relief.

The Rochester, New York Chamber of Commerce has probably had as good experience as any in the matter of getting the man who wants a job together with the employer. Their experience should be valuable to us. I plan to go there.

Professor Schlichter writes with some force and illumination in the September Atlantic on "how to encourage industry to buy more labor". He says that the following policies are needed:

1. To avoid for the time being general increases in the price of labor. (You can't sell more labor by raising its price .)

2. To reduce the fear of drastic deflation on the<sup>118</sup>  
part of business managers by making moderate cuts  
in government expenditures and permitting the  
increase in revenues still further to reduce the  
deficit. The government is here confronted with a  
delicate and important problem -- of reducing its  
deficit so gradually as not to sacrifice gains in  
production and employment which have thus far been  
achieved. In order to accomplish this, the  
curtailment in government expenditures must be  
accompanied by policies designed to encourage  
enterprise.

3. To abandon the policy of attempting to make  
business spend by the use of fear and compulsion  
and adopt as an objective of public policy the  
fostering of confidence and the creation of a  
willingness among business men to take chances.

4. In order to make a given increase in the demand  
for labor yield in the main new jobs rather than  
longer working hours, to seek the cooperation of  
industry in avoiding increases in the normal  
working week above forty hours until unemployment  
has been substantially reduced.

"There must be a substantial increase in the demand  
for labor", he says, "and this increase can be  
fostered only by policies which encourage business men  
to take chances and to increase production rather  
than to hold cash",

Draft of the  
Pres's speech

In the past it has been regarded as appropriate on Labor Day to speak words of tribute to the accomplishments of the working man in making America great. While giving new force to these tributes, let us regard Labor Day as meaning more to us than that. It is more appropriate, I think, to review the progress that has been made toward reaching the goal that all of us ought to seek - the goal of justice and fair opportunity for the working man - and I think we should mean by fair opportunity that all who are able to work should find the opportunity always available to engage in productive labor for a recompense that will insure to them a decent standard of living.

It is a goal that we have never reached. It is particularly important that we should not lose sight of it as we emerge from the depression. We seek not merely the restoration of opportunities for a livelihood to those who were forced out of work by business disruption, but we are seeking to enlarge the opportunities of all who labor in the more prosperous times that are ahead of us. We believe that prosperity must be shared so that it may be an enduring prosperity.

In the emergency with which we have had to deal

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the Federal Government has accepted - and willingly accepted - new responsibilities. It has found work on great public projects of real worth to the nation, to the states and to localities, for millions of men. Through co-operation with states and localities we are still employing on these emergency public works more than three million workers.

But industrial activity is reviving rapidly. Employment in private industry too is reviving. Industry in the last year has shown a gain of approximately a million workers and an increase of almost forty-two million in the amount paid out in weekly wages.

We can not and will not surrender our responsibility for providing useful work through governmental action for those who seek it and are in urgent need of it. We have had ample proof that this is the will of the American people; that those who represent them in national, state and local governments should continue to discharge their responsibility to the unemployed. But at the same time we have another responsibility and it is one that we are well prepared to assume. We must facilitate, so far as we can, the return of workers to private industry and safeguard them in their employment when it is obtained.

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The opportunity and the responsibility of government in this direction was recognized from the very first by this administration. Early in the summer of 1933, Congress enacted a law, sponsored by Senator Robert F. Wagner, of New York, and by Representative Theodore A. Peyster of that state, establishing the United States Employment Service. This measure, for the benefit of labor, was among the first of the constructive achievements of the present Administration designed to advance the general social welfare. It is a permanent agency, useful not only during the emergency period, but for the years ahead.

In our endeavor to meet this problem, we have proceeded in the traditional way which is suitable to a democracy and to America. It is a cooperative enterprise. It seeks the active support of the States and the local governments; it asks for and has a right to expect the cooperation of the laboring man and the employer. For the problem of placing workers in occupations for which they are suited is not one for the Federal Government alone, but is the common problem of us all.

In this work the Federal Government matches, dollar for dollar, the funds provided by States and local subdivisions. Already there are thirty-six State Employment Services in operation. The areas not covered

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by the state services are served by the Federal Government through the National Reemployment Service, which will gradually retire from the field as the state services are developed to meet the needs of the working men of the country.

At present we have a nation-wide reemployment service with some seven hundred district offices, and with a thousand additional branch offices. In every community there are facilities through which labor has an opportunity to learn of jobs available and employers can have access to labor supply.

The need for a free employment service has long been felt in the United States. With such a service in efficient operation the workingman need no longer be exploited in his search for employment. No longer need he travel the country over in illusory wandering after jobs which always seem to travel just a little faster than he does. The wasteful methods heretofore followed constitute an interference to the smooth operation of industry and work an unnecessary hardship on the workers. Victimization of the laborer through fraudulent practices with which workers are familiar can be ended.

We can not ask that the workers of America be

confined for their lifetimes to one place. They must move as industry moves. From that necessity arises the responsibility of the Federal Government and the States to assist them in an orderly employment shift so that neither they nor the industrial communities will experience the chaotic conditions of the past. Thus will the welfare of labor and of the country as a whole be promoted.

The Federal Government can not create jobs in private industry. That is the task of business itself. In my relief message of March 18, 1936, I expressed dissatisfaction with the rate of progress of reemployment. I invited private business to cooperate in extending its operations and absorbing an increasing number of the unemployed. Only in that way can we expect to reduce the relief burden on the Government.

We have made outstanding progress since then. We must make more. I renew my suggestion of last March to the managers of private business that they accept responsibility of further efforts toward increased employment. I renew my pledge of the cooperation of all the appropriate agencies and departments of the Federal Government. And specifically I propose to strengthen, intensify, and broaden the services of the United States Employment Service in making that cooperation effective. It is the

bridge between the millions of unemployed workers on the one side and the waiting work opportunities on the other, the connecting link to a real job with real wages.

This bridge has been much used during the past three years. For the three years ended June 30, 1936, the United States Employment Service has in three and a half million instances found either temporary or regular jobs in private industry for workers registered with it. In addition, this agency made placements in twelve and a half million instances on relief work and public works projects.

What is the work of the United States Employment Service, and how can it be strengthened to help the laboring man get a job for which he is fitted and the employer to get satisfactory workers? The service of this agency is two-fold. On the one hand it serves the working man. The unemployed are registered with the United States Employment Service. A complete record of the experience and aptitude of each man is maintained and kept as nearly as can be up to date. We know that men are available for every line of work and where they can be located. Naturally it is a tremendous task to keep these records current and accurate. The men who are seeking jobs can be of great help in this if they will co-

operate with us. Men who get jobs can help by reporting their changed status.

On August 25th I announced that I had allocated an additional \$1,500,000 to the United States Employment Service for the purpose of getting better and more recent information from those now actively at work on WPA projects. Their records will then be brought up to date and kept in a condition for maximum use and serviceability in making these as well as all other applicants available to industry.

I am now announcing the allocation of \$2,500,000 to enable the Employment Service to make a more intensive search for opportunities for work.

Here is the place for cooperation by industry. We know that the Employment Service can be of practical benefit in providing labor when and where needed. The records of the office show that the curve of placements in private industry rises and falls with increases and decreases in the number of field visits made by the staff of the Employment Service. The more frequent the contact with private business, the higher the rate of placements by the Service with industry.

Through the allocation of an additional two and half million dollars for the intensification of this contact work, we are carrying out our part of the responsibility. We are offering to business an enlarged op-

- 8 -

portunity in the absorption of the unemployed, and a specific method of cooperation. We shall expect to be met half way in this endeavor by both the employer and the worker.

One other word about the United States Employment Service. It will have an important responsibility in connection with the Social Security program which is just getting under way for the permanent benefit of the laboring man and the economic benefit of the country as a whole. And just as in the case of its emergency activity, the set-up is that traditional in the American scheme of government. Here too the effort is cooperative. The State is the unit of administration. As unemployment compensation laws are enacted by the States, and benefits are paid to workers unwillingly out of work, employees covered by this legislation must be registered with the United States Employment Service. The record of their periods of unemployment will be maintained by this agency for the use of the administrators of the Social Security program.

Already in one State - Wisconsin - payments have begun to unemployed under the state compensation act.

The Federal Government has provided relief for the unemployed laborer, and it is right that we should

- 9 -

have done so. You and I know that the burden of relief must be lightened. You and I know that the unemployed worker prefers private employment to public relief. The Federal Government proposes to do its utmost in making for all possible speed in providing re-employment by being of maximum assistance to the worker in placing his abilities at the service of industry, and in being of like assistance to the employer in his search for labor as he meets his responsibility to the country for increased private employment.

--oOo--

## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, September 8, 1936.  
9-5-36

Press Service  
No. 8-30

Secretary of the Treasury Morgenthau is today offering for subscription, at par and accrued interest, through the Federal Reserve banks \$400,000,000, or thereabouts, of 20-23 year 2-3/4 percent Treasury bonds of 1956-59, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which 1-1/2 percent Treasury notes of Series D-1936, maturing September 15, 1936, are tendered in payment and accepted.

The Treasury bonds of 1956-59 now offered for cash, and in exchange for Treasury notes maturing September 15, 1936, will be dated September 15, 1936, and will bear interest from that date at the rate of 2-3/4 percent per annum payable semiannually. They will mature September 15, 1959, but may be redeemed at the option of the United States on and after September 15, 1956.

The Treasury bonds will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding. These provisions are specifically set forth in the official circular issued today.

The bonds will be issued in two forms, bearer bonds with interest coupons attached, and bonds registered as to both principal and interest; both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

Applications will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. With respect to cash subscriptions, applications from banks and trust companies for

their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied, if for \$5,000 or less by payment in full; and, if for more than \$5,000, by payment of 10 percent of the amount applied for, but not less than \$5,000. With respect to exchange subscriptions, such subscriptions should be accompanied by a like face amount of 1-1/2 percent Treasury notes of Series D-1936 tendered in payment.

Subject to the reservations set forth in the official circular, cash subscriptions for amounts up to and including \$5,000 will be given preferred allotment, cash subscriptions for amounts over \$5,000 will be allotted on an equal percentage basis, but not less than the maximum preferred allotment, and exchange subscriptions will be allotted in full. Payment for any bonds allotted must be made or completed on or before September 15, 1936. The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

In order to provide an equitable allotment and distribution of the bonds among all classes of subscribers, all banking institutions and others concerned are again urged to cooperate in the manner outlined in Department letter of May 27, 1936, addressed to the President of each Federal Reserve bank and made public at that time.

Interest on the public debt to the amount of about \$155,000,000 is payable on September 15, 1936. The amount of Treasury notes of Series D-1936 maturing on September 15, 1936, which may be exchanged for the Treasury bonds now offered, is \$514,066,000.

The text of the official circular follows:

UNITED STATES OF AMERICA

2-3/4 PERCENT TREASURY BONDS OF 1956-59

Dated and bearing interest from September 15, 1936

Due September 15, 1959

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER  
SEPTEMBER 15, 1956

Interest payable March 15 and September 15

1936  
Department Circular No. 567

TREASURY DEPARTMENT,  
Office of the Secretary,  
Washington, September 8, 1936.

Public Debt Service

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest, from the people of the United States for 2-3/4 percent bonds of the United States, designated Treasury Bonds of 1956-59. The amount of the offering is \$400,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to increase the offering by an amount sufficient to accept all subscriptions for which Treasury Notes of Series D-1936, maturing September 15, 1936, are tendered in payment and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated September 15, 1936, and will bear interest from that date at the rate of 2-3/4 percent per annum, payable semiannually on March 15 and September 15 in each year until the principal amount becomes payable. They will mature September 15, 1959, but may be redeemed at the option of the United States on and after September 15, 1956, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be

prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

### III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may

submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Cash subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Cash subscriptions from all others must be accompanied, if for \$5,000 or less by payment in full; and, if for more than \$5,000, by payment of 10 percent of the amount of bonds applied for, but not less than \$5,000. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, cash subscriptions for amounts up to and including \$5,000 will be given preferred allotment; cash subscriptions for amounts over \$5,000 will be allotted on an equal percentage basis, but not less than the maximum preferred allotment; and subscriptions in payment of which Treasury Notes of Series D-1936 are tendered will be allotted in full. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

#### IV. PAYMENT

1. Payment at par and accrued interest, if any, for bonds allotted on cash subscriptions must be made or completed on or before September 15, 1936, or on later

allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of bonds applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve bank of its district. Treasury Notes of Series D-1936, maturing September 15, 1936, will be accepted at par in payment for any bonds subscribed for and allotted, and such payment should be made when the subscription is tendered.

#### V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,  
Secretary of the Treasury.

Tuesday  
September 8, 1936  
9:07 a. m.

W. R. Burgess: The maturing issue - the rights are selling at a hundred one eight to twelve.

HMjr: A hundred and one eight to twelve?

B: Eight to twelve thirty seconds -

HMjr: Well, that's way up, isn't it?

B: Yes

HMjr: What?

B: That's up about - it was a hundred - about a hundred and one at the close, you know?

HMjr: Well, is that - that's the best indicator, isn't it?

B: That's the best indicator. It means they've priced the new issue over a hundred and one, in fact a hundred and one and a quarter.

HMjr: They've priced it at a hundred and one and a quarter?

B: Yes

HMjr: Well, that's just what we priced it at.

B: That's right - just exactly.

HMjr: You saw the -

B: The rest of the bonds are just the same as they were. There was a report that some of those other bonds might come into the market a little bit.

HMjr: Which other ones?

B: Oh, the two and seven eighths and the old two and three quarters, that would be natural - in switching from the old to the new.

HMjr: Yes - well, I would just as leave pick up a few.

B: Well, I don't think there is any occasion to. I think that we'd better settle down -

HMjr: What?

B: I don't think there is any need to at all.

HMjr: All right

B: Now the notes look strong.

HMjr: The notes?

B: They would, yes.

HMjr: What notes ?

B: The thirty-eight and thirty-nine and forty

HMjr: Oh, the ones that - ?

B: Yes

HMjr: The old ones, you mean?

B: That's right, yes

HMjr: Yes

B: Yes, yes, yes

HMjr: Oh, this morning - I mean I'm as sure of that as of anything I've done this morning.

B: Oh, this is bound to be a success.

HMjr: And I think it was smart to make it just the twenty-three years instead of the twenty-five.

B: I think it's just right.

HMjr: What?

B: I think it's just right.

HMjr: Fine- how's your golf?

B: Oh, just fair -

HMjr: Just fair?

B: Fair -

HMjr: All right, I'll talk to you when I come back from the White House.

B: Very good  
HM jr: Thank you.

Tuesday  
September 8, 1936  
10:20 a. m.

HM jr: - on the conversions, should I - do you want them to close Thursday night or Friday night?

Burgess: Well, I hadn't thought much about that.

HM jr: We're announcing them tonight.

B: Yes

HM jr: That would give them Wednesday and Thursday.

B: We close the cash tonight, presumably.

HM jr: Presumably -

B: I think - I think Thursday night is going to be time enough.

HM jr: You people don't like to run over the Friday, do you?

B: No, I'd rather not.

HM jr: I did it last time. I think - I think Thursday is -

B: Of course last time it was Thursday but we opened Monday, so we gave them four days. Let me turn that over a bit, may I?

HM jr: Please - please - all right.

B: Very good.

HM jr: Thank you.

Tuesday  
September 8, 1936  
10:55 a. m.

HM jr: Do you want a little gossip?  
W. R.  
Burgess: Yes

HM jr: Why, one of the bright newspaper men around town said I didn't take the recommendation of the Open Market Committee, they recommended a thirty year two and a half per cent bond.

B: (Laughs)

HM jr: I thought you'd like that.

B: That's swell.

HM jr: What?

B: That's swell.

HM jr: Yes

B: No other committee can say you didn't take their recommendations.

HM jr: When will you have - when will you have your first information?

B: Oh, I've got some right now, but it's nothing - there's nothing in practically -

HM jr: All right.

B: - Up until eleven fifteen -

HM jr: Yes

B: Forty-five million -

HM jr: Yes

B: That includes thirty-eight million in the Manufacturers' Trust.

HM jr: You mean these are new orders?

B: Yes - then the Chase has come in for their full - their full allotment.

HMjr: They have?  
B: Yes  
HMjr: Well, that's good.  
B: - take up the surplus.  
HMjr: How much can they take?  
B: They can take -  
HMjr: A hundred million?  
B: - pretty close to a hundred million, yes.  
HMjr: That's all right.  
B: Yes, yes  
HMjr: All right  
B: There's no question about it of course.  
HMjr: O. K.  
B: Right  
HMjr: Goodbye.

Tuesday  
September 8, 1936  
11:38 a. m.

W. R.  
Burgess:

Hello - I thought you'd be amused by the sub-  
scriptions we've received so far.

HMjr:

What's that?

B:

I thought you'd be amused by the subscriptions  
we've received so far.

HMjr:

Please-

B:

Three hundred and thirty-two million -

HMjr:

Yes

B:

Let me read you the items on that.

HMjr:

B: Central Savings Bank ten million -

HMjr:

Who are they?

B:

Oh, one of the savings banks here.

HMjr:

Savings bank?

B:

Up in town I think it is.

HMjr:

Yes

B:

Chase a hundred million

HMjr:

Just a minute - a hundred?

B:

Corn Ex - fifteen million -

HMjr:

Corn Ex - how much?

B:

Fifteen

HMjr:

Yes

B:

Immigrants' Industrial Savings Bank - twenty

HMjr:

Immigrants' - ?

B:

Now that amuses me -

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HMjr: Yes

B: - because that's the bank that told Gordon Rentschler on Saturday or Friday they wouldn't take any, you know, they weren't interested?

HMjr: Yes

B: (Laughs)

HMjr: Yes

B: Then the American Banking Corporation three million -

HMjr: Yes

B: National City Bank eighty-four million -

HMjr: Weren't they cutting corners - National City?

B: No, I don't think so.

HMjr: Yes

B: I think they just decided they hadn't had enough.

HMjr: Yes

B: The Oklahoma Manufacturers' Trust Company <sup>eight -</sup> <sup>The</sup> thirty two thirty eight.

HMjr: Is that their limit? - Manufacturers' -?

B: Yes, I think so. Yes, their capital is about -

HMjr: Thirty-four - <sup>The Oklahoma took how much?</sup>

B: Eight

HMjr: Eight?

B: Eight million - Those are just the large subscriptions I read.

HMjr: Well now, you haven't got the Bankers yet, - Trust -

B: No, we haven't heard from half of them yet.

HMjr: Yes.

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B: This is just the first flash, you know.

HMjr: And you haven't heard from the Treasury yet either.

B: (Laughs)

HMjr: How about the Federal Reserve - how much did they take?

B: Well, we're going to exchange all of ours.

HMjr: Oh, I see, that's right.

B: Yes

HMjr: That's right, - that's right.

B: Yes, yes

HMjr: That's right - Is George back?

B: Well, we expect him some time today. I haven't -

HMjr: Well, tell him -

B: - heard from him yet, though.

HMjr: - when he gets back to give me a ring.

B: Right

HMjr: Now, you see you go to lunch now, don't you?

B: Yes, I'm going up to lunch, I'll be in the building.

HMjr: O. K.

B: As soon as he comes up I'll hear from him.

HMjr: Thank you.

B: First rate.

Tuesday  
September 8, 1936  
2:13 p. m.

W. R. Burgess: Well, she's over the top.

HMjr: I've got this sheet in front of me that Harris is running for me, showing what the Banks - the first hundred banks are taking.

B: Oh yes

HMjr: And I don't see any yet that haven't taken their full amount.

B: No, I haven't (Laughs) I haven't seen any yet.

HMjr: I haven't got - I haven't got - where is the big fellow here, the Guaranty?

B: No, I haven't seen that yet.

HMjr: Yes

B: We haven't got that yet.

HMjr: No, but everybody else up to now has got his full amount.

B: Yes, I think they're taking it. Have you got reports from the country yet?

HMjr: No, at two thirty when I get them I'll call you. We get a two-thirty, a three-thirty and four-thirty.

B: Yes, I see, yes - yes

HMjr: And as I get them I'll pass it along.

B: We've oversold the issue right here, you know.

HMjr: Oh, have you?

B: Oh yes

HMjr: How much?

B: Eight hundred and forty-two at two o'clock.

HMjr: How much?

B: Eight hundred and forty-two

HMjr: Yes - well, that's nice.

B: That's very pretty.

HMjr: Yes

B: Almost too nice.

HMjr: Well, you saw what the Wall Street Journal said, eight per cent?

B: Yes, that's right. That may be about right, I don't know.

HMjr: Yes

B: I think that's a little bit low.

HMjr: Well, I just want to see the first bank that doesn't take its full amount.

B: (Laughs) No, they're all coming in.

HMjr: Well, - is anybody down there worrying about the pound and the franc?

B: Well, they say they're a little jittery today, but I haven't heard very much about it today.

HMjr: I see. You know - did you know the pound is over 505?

B: Yes, yes - just a sixteenth.

HMjr: Well, when I hear Burgess, I'll give you a ring.

B: Thanks a lot.

HMjr: Right

B: Goodbye.

September 8, 1936

Dear Arthur:

Thanks for your letter of September 1. I appreciate the friendly spirit in which it was written and an answering in the same mood.

I am more than glad to take your word as publisher of the New York Times and as my friend of many, many years standing that no thought of unfairness or unkindness toward me could emanate from you. Because you are so completely straightforward I felt I could discuss this matter with you and was sure that you would understand my position.

Strangely enough, I am not particularly sensitive to newspaper attacks and this was the first one that really got under my skin in a long time. I expect attacks from anti-Administration papers and some from friendly papers who disagree with certain Treasury policies, but an attack by innuendo from a paper which I had thought of as not hostile to me came as a great shock. I quote just one sentence which I think tells the whole story: "If either was placed in charge of the Government's fiscal policy, the President would immediately get praise from citizens who haven't had any to give him for three years."

I am glad that Arthur Krock saw fit to praise Jesse Jones and Joe Kennedy for both have done a good job and it is certainly helpful to the President to have his able administrators receive recognition. If that had been the one main motive behind the article, I think the people about me and the newspaper boys would not have inquired, "Why is Krock trying to get the Secretary?" and, "Is this another boom for Kennedy or Jones?"

When it comes to attacking the tax bill or any other policy with which the New York Times disagrees,

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that is of course an entirely different matter. It doesn't seem to me that it would have been wise for the Times to have urged my removal or to have conducted a campaign against me personally on that score, but at least if they had done so it would have been a definite, open attack. Many anti-Administration papers, and papers such as the Wall Street Journal and the New York Tribune, which have attacked certain of our fiscal policies, have not attacked me personally; in fact, have had occasion to praise my conduct of Treasury affairs. In a job as grueling and difficult as mine, it is rather comforting sometimes to feel that an appraising critic thinks you are doing your work well.

Let me say again that if nothing was meant by that article I am more than glad to take your word for it.

As ever yours,

Mr. Arthur H. Sulzberger,  
Publisher, The New York Times,  
229 West 43rd Street,  
New York, New York.

The New York Times  
Times Square

*Thank you, -  
File personal  
file 130*

ARTHUR HAYS SULZBERGER  
PUBLISHER

September 1, 1936

Dear Henry:

I always thought that I was fairly touchy but, with your permission, will hand over the laurels to you -- that by way of introduction instead of calling you all the endearing names which I am thinking of but which, in view of your cockeyed outlook (if one may use that Republican word to you without offense) you might be inclined to take seriously.

You object, I understand, to Monday's editorial "Mr. Coolidge Can Help" in which The New York Times - not Mr. Krock - said: "There are many influential people in business and finance who were disturbed over his departure, fearing that it meant a burst of fiscal radicalism which, though it did not come, still seems to these uneasy persons to remain a greater possibility with men like Mr. Coolidge leaving the fight against it." It seems almost inconceivable to me that anyone should question the correctness of this statement. Such people do exist. In case you don't know it, I will be glad to introduce you to any number of them, although they are not particularly my friends, and they represent an important part of the New York community. Personally, I fail to see that this is a reflection of any kind upon the Treasury, or upon the Secretary of the Treasury. It is a calm statement that during a time when feeling ran high there were certain groups who regretted the passing of one who was regarded as a conservative. It is as close to a factual statement as any that could be made unless it were to say "Mr. X., Mr. Y. and Mr. Z. were disturbed over Mr. Coolidge's departure".

Let's turn for a moment to Mr. Krock's September 1st article. Don't you really know that Mr. Jones and Mr. Kennedy are the special pets of the Republicans? Don't you realize that the administration's

fiscal policy is the subject of criticism both by conservative Democrats and Republicans? And can't you see that what Mr. Krock was trying to show was that despite this criticism these men would be strong enough to overcome it with the particular groups that he was discussing?

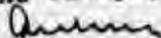
I am willing to concede that there might have been a sentence or a word included which would indicate that the Treasury in our judgment was being well administered now, but, frankly, that did not seem to me to be necessary when I read the article before it was published, since its subject was Mr. Kennedy and Mr. Jones and not Mr. Morgenthau.

You made some reference to me about the tax bill which I did not quite understand. I don't know why it comes up for discussion here. The Times certainly indicated that it did not like it. It thinks it the most un-American, destructive piece of legislation which it has witnessed in many a long day and because of it, came extraordinarily close to the determination to support anyone who was put up by the Republicans this year in preference to Mr. Roosevelt. If we had wanted to urge the removal of the Secretary of the Treasury, there could not have been a more opportune time for it than when this particular tax bill was under consideration.

Your statement that The Times has never been friendly to you leaves me nonplussed. You seem to overlook the fact that you are an important part of an administration which has done some things that both affronted and horrified us. You know that very well from the conversations that I have had with you. You, on the other hand, by the way in which you have conducted your department and not because I regarded and still regard you as my friend, have not only been free from criticism, but have on plenty of occasions been applauded. I again direct your attention to the fact that in the more than customarily active campaign that we conducted against the tax bill there never was an unfriendly word written against you.

As I said at the beginning, I hand the laurel wreath to you.

As always,



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

*Draft.  
not used.*

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Dear Arthur;

Thanks for your letter of September 1. I appreciate the friendly spirit in which it was written and will reply in the same vein.

In regard to Arthur Krock's column of September 1 -- after three and one-half years in Washington I think I can recognize the Washington method of getting one's man. Krock's sudden burst of enthusiasm for Mr. Jones was motivated by what? The whole tone of the column reeks with innuendo and insincerity.

I am more than glad to take your word, as publisher of the New York Times and as my friend of many, many years standing, that no thought of unfairness or unkindness would or could emanate from you in regard to myself. You, however, have not lived in Washington in the same atmosphere as I have and if you don't mind my saying so, I wonder if you really realize what was in the back of Krock's mind when he wrote his column.

I accept the wreath which you so generously offer me, but may I suggest that you look into the "Greeks who write columns."

Yours sincerely,

Dear Arthur:

Thanks for your letter of September 1. I appreciate the friendly spirit in which it was written and I am replying in the same mood.

I can not accept the laurel wreath. Not only will it be against my touchy rules, but I don't feel it to be deserved.

Quite seriously and after most sober reflection, I am still convinced that I was right and you were wrong about the motive behind both the editorial and the column. I am further convinced by the reaction of others here in Washington, reported to me since I talked to you. It is probably because of your own straightforward nature that you do not realize or recognize the methods that are sometimes used ~~in~~ in Washington to reach a desired objective. I should like to have the opportunity to talk this over with you some time. I might even discuss with you the meaning of the word "cockeyed", which, as I take it, has the implication of appearing to look in one direction while actually looking and moving in another.

Believe me, Arthur, that I am not motivated only by the desire to protect my own name and place; I also want to see you do a good job.

Sincerely yours,

at least if they had done so  
it would have been a definite  
open attack. Many out, administrative  
papers, and papers, which have  
not ~~attached~~ <sup>attached</sup> with certain of your  
fiscal policies, ~~have not attached~~ <sup>have not attached</sup> ~~me personally in fact~~  
I have had occasion

to praise my conduct of Treasury  
affairs. It is a job as generally and  
difficult as mine it is rather  
comforting sometimes to feel that  
an approving critic thinks you  
are doing your work well.

Let me say again that if  
nothing was meant by that which  
I am glad to take your word for it  
but if you had ~~been~~ <sup>been</sup> ~~in Washington~~  
~~as you yourself~~



## TREASURY DEPARTMENT

WASHINGTON

4

When it comes to attacking  
the tax bill or ~~anything else~~  
any other policy with which the  
N.Y. Times disagrees that is of  
course an entirely different matter.  
~~I would never expect~~ ~~there is no~~  
~~reason~~ ~~a powerful organ of public~~  
~~opinion~~ ~~to~~ ~~agree with you~~  
that it has. It doesn't seem to  
me that it would have been  
wise for the Times to have  
urged any removal or to have  
conducted a campaign against  
me personally on that score, but



TREASURY DEPARTMENT

WASHINGTON

If Arthur was placed in charge of ~~governmental~~ <sup>The</sup> government's fiscal policy, the President would immediately get grants from citizens who haven't had any to give him for three years.

Dear Arthur

Thanks for your letter of Sep 1. I appreciate the friendly spirit in which it was written and am answering in the same mood.

I am more than glad to take your word as publisher of the U.S. Times and as my kind of many ways or seek ideas toward us that of supervisors I make known. <sup>Because you are</sup> ~~how~~ ~~rather~~ ~~USO~~

so completely straight forward ~~that~~  
~~you would have~~ ~~was~~ ~~that~~  
I felt I could discuss this matter with  
you and was sure that you would  
understand my position ~~strongly~~  
enough I am not particularly  
sensitive ~~about~~ <sup>to</sup> newspaper attacks  
and this was the first one that  
<sup>Q. 226</sup> got under my skin in three  
years. I expect attacks from anti-  
administration papers, or some  
more kindly paper who disagree  
with certain Treasury policies,  
but ~~do not~~ an attack by  
Inverdo from a paper which  
I had thought of as not hostile to  
me, came as a great shock -



## TREASURY DEPARTMENT

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WASHINGTON

quote just one sentence which  
I think tells the whole story (quote\*  
I am glad A.R. saw fit to praise  
J.J. + J.R. for both have done a  
good job and it is certainly helpful  
to have the adm. The President to  
have his able administrators Brown  
Recognition. If that had been  
the main motive behind the  
article I think the people  
about me and the newspaper  
boys would not have inquired  
"Why is Krock trying to get  
the Secretary, and for whom?  
This another book?"

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 8, 1936, 8 p.m.

NO.: 843 FROM COCHRAN.

I refer to my telegram No. 833 of September 5, noon.

At six o'clock this evening the French Minister of Finance handed to me the French text of the document in question; I am making an English translation of the document and tonight Rueff will check it with me. Therefore I may not be able to telegraph the text until tomorrow morning.

This evening Monick was at the Ministry of Finance. Tomorrow he leaves for London with the text for the British. He will not be able to deliver the text before late Wednesday evening or the morning of the tenth.

WILSON.

EA:LWW

September 8, 1956.

My dear Mr. President:

I am enclosing herewith a  
very important cable from Cochran which  
just came in.

Respectfully yours,

Henry Morgenthau, Jr.

The President

The White House.

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BRITISH EMBASSY,  
WASHINGTON, D.C.

8th September, 1936

My dear Mr. Secretary,

Late last night I received a telegram from London containing the following message for you from Sir Warren Fisher.

Sir Warren asks me to inform you that the message from yourself and the Secretary of State which you were so good as to give to me on Saturday has been forwarded to the Chancellor of the Exchequer who will, Sir Warren feels sure, much appreciate your kindness in communicating this information.

The British Treasury had not up till yesterday received any note from the French Government. They trust that it will be found to/

The Honourable  
Henry Morgenthau, Jr.,  
Secretary of the United States Treasury,  
Washington, D.C.

to contain serious proposals for the  
readjustment of the French currency.

Believe me,

My dear Mr. Secretary,

Yours very sincerely,

*J. A. M. Mallet*  
...

Tuesday  
September 8, 1936  
9:07 a. m.

W. R. Burgess: The maturing issue - the are selling at a hundred one eight to twelve.

HMjr: A hundred and one eight to twelve?

B: Eight to twelve thirty seconds -

HMjr: Well, that's way up, isn't it?

B: Yes

HMjr: What?

B: That's up about - it was a hundred - about a hundred and one at the close, you know?

HMjr: Well, is that - that's the best indicator, isn't it?

B: That's the best indicator. It means they've priced the new issue over a hundred and one, in fact a hundred and one and a quarter.

HMjr: They've priced it at a hundred and one and a quarter?

B: Yes

HMjr: Well, that's just what we priced it at.

B: That's right - just exactly.

HMjr: You saw the -

B: The rest of the bonds are just the same as they were. There was a report that some of those other bonds might come into the market a little bit.

HMjr: Which other ones?

B: Oh, the two and seven eighths and the old two and three quarters, that would be natural - in switching from the old to the new.

HMjr: Yes - well, I would just as leave pick up a few.

B: Well, I don't think there is any occasion to. I think that we'd better settle down -

HMjr: What?

B: I don't think there is any need to at all.

HMjr: All right

B: Now the notes look strong.

HMjr: The notes?

B: They would, yes.

HMjr: What notes?

B: The thirty-eight and thirty-nine and forty

HMjr: Oh, the ones that - ?

B: Yes

HMjr: The old ones, you mean?

B: That's right, yes

HMjr: Yes

B: Yes, yes, yes

HMjr: Oh, this morning - I mean I'm as sure of that as of anything I've done this morning.

B: Oh, this is bound to be a success.

HMjr: And I think it was smart to make it just the twenty-three years instead of the twenty-five.

B: I think it's just right.

HMjr: What?

B: I think it's just right.

HMjr: Fine- how's your golf?

B: Oh, just fair -

HMjr: Just fair?

B: Fair -

HMjr: All right, I'll talk to you when I come back from the White House.

B: Very good  
HMjr: Thank you.

Tuesday  
September 8, 1936  
10:20 a. m.

HMjr: - on the conversions, should I - do you want them to close Thursday night or Friday night?  
Burgess: Well, I hadn't thought much about that.  
HMjr: We're announcing them tonight.  
B: Yes  
HMjr: That would give them Wednesday and Thursday.  
B: We close the cash tonight, presumably.  
HMjr: Presumably -  
B: I think - I think Thursday night is going to be time enough.  
HMjr: You people don't like to run over the Friday, do you?  
B: No, I'd rather not.  
HMjr: I did it last time. I think - I think Thursday is -  
B: Of course last time it was Thursday but we opened Monday, so we gave them four days. Let me turn that over a bit, may I?  
HMjr: Please - please - all right.  
B: Very good.  
HMjr: Thank you.

Tuesday  
September 8, 1936  
10:55 a. m.

HMjr: Do you want a little gossip?

W. R.

Burgess: Yes

HMjr: Why, one of the bright newspaper men around town said I didn't take the recommendation of the Open Market Committee, they recommended a thirty year two and a half per cent bond.

B: (Laughs)

HMjr: I thought you'd like that.

B: That's swell.

HMjr: What?

B: That's swell.

HMjr: Yes

B: No other committee can say you didn't take their recommendations.

HMjr: When will you have - when will you have your first information?

B: Oh, I've got some right now, but it's nothing - there's nothing in practically -

HMjr: All right.

B: - Up until eleven fifteen -

HMjr: Yes

B: Forty-five million -

HMjr: Yes

B: That includes thirty-eight million in the Manufacturers' Trust.

HMjr: You mean these are new orders?

B: Yes - then the Chase has come in for their full-their full allotment.

HMjr: They have?

B: Yes

HMjr: Well, that's good.

B: - take up the surplus.

HMjr: How much can they take?

B: They can take -

HMjr: A hundred million?

B: - pretty close to a hundred million, yes.

HMjr: That's all right.

B: Yes, yes

HMjr: All right

B: There's no question about it of course.

HMjr: O. K.

B: Right

HMjr: Goodbye.

Tuesday  
September 8, 1936  
11:38 a. m.

W. R. Burgess: Hello - I thought you'd be amused by the subscriptions we've received so far.

HMjr: What's that?

B: I thought you'd be amused by the subscriptions we've received so far.

HMjr: Please

B: Three hundred and thirty-two million -

HMjr: Yes

B: Let me read you the items on that.

HMjr:

B: Central Savings Bank ten million -

HMjr: Who are they?

B: Oh, one of the savings banks here.

HMjr: Savings bank?

B: Up in town I think it is.

HMjr: Yes

B: Chase a hundred million -

HMjr: Just a minute - a hundred?

B: Corn Ex - fifteen million -

HMjr: Corn Ex - how much?

B: Fifteen

HMjr: Yes

B: Immigrants' Industrial Savings Bank - twenty

HMjr: Immigrants' - ?

B: Now that amuses me -

HMjr: Yes

B: - because that's the bank that told Gordon Rentschler on Saturday or Friday they wouldn't take any, you know, they weren't interested?

HMjr: Yes

B: (Laughs)

HMjr: Yes

B: Then the American Banking Corporation three million -

HMjr: Yes

B: National City Bank eighty-four million -

HMjr: Weren't they cutting corners - National City?

B: No, I don't think so.

HMjr: Yes

B: I think they just decided they hadn't had enough.

HMjr: Yes

B: The Oklahoma Manufacturers' Trust Company <sup>eight</sup> thirty two <sup>-</sup> thirty eight.

HMjr: Is that their limit? - Manufacturers' -?

B: Yes, I think so. Yes, their capital is about -

HMjr: Thirty-four - The Oklahoma took how much?

B: Eight

HMjr: Eight?

B: Eight million - Those are just the large subscriptions I read.

HMjr: Well now, you haven't got the Bankers yet, - Trust -

B: No, we haven't heard from half of them yet.

HMjr: Yes

B: This is just the first flash, you know.

HMjr: And you haven't heard from the Treasury yet either.

B: (Laughs)

HMjr: How about the Federal Reserve - how much did they take?

B: Well, we're going to exchange all of ours.

HMjr: Oh, I see, that's right.

B: Yes

HMjr: That's right, - that's right.

B: Yes, yes

HMjr: That's right - Is George back?

B: Well, we expect him some time today. I haven't -

HMjr: Well, tell him -

B: - heard from him yet, though.

HMjr: - when he gets back to give me a ring.

B: Right

HMjr: Now, you see you go to lunch now, don't you?

B: Yes, I'm going up to lunch, I'll be in the building.

HMjr: O. K.

B: As soon as he comes up I'll here from him.

HMjr: Thank you.

B: First rate.

Tuesday  
September 8, 1936  
2:13 p. m.

W. R.  
Burgess: Well, she's over the top.

HMjr: I've got this sheet in front of me that Harris is running for me, showing what the banks - the first hundred banks are taking.

B: Oh yes

HMjr: And I don't see any yet that haven't taken their full amount.

B: No, I haven't (Laughs) I haven't seen any yet.

HMjr: I haven't got - I haven't got - where is the big fellow here, the Guaranty?

B: No, I haven't seen that yet.

HMjr: Yes

B: We haven't got that yet.

HMjr: No, but everybody else up to now has got his full amount.

B: Yes, I think they're taking it. Have you got reports from the country yet?

HMjr: No, at two thirty when I get them I'll call you. We get a two-thirty, a three-thirty and four-thirty.

B: Yes, I see, yes - yes

HMjr: And as I get them I'll pass it along.

B: We've oversold the issue right here, you know.

HMjr: Oh, have you?

B: Oh yes

HMjr: How much?

B: Eight hundred and forty-two at two o'clock.

HMjr: How much?

B: Eight hundred and forty-two

HMjr: Yes - well, that's nice.

B: That's very pretty.

HMjr: Yes

B: Almost too nice.

HMjr: Well, you saw what the Wall Street Journal said, eight per cent?

B: Yes, that's right. - That may be about right, I don't know.

HMjr: Yes

B: I think that's a little bit low.

HMjr: Well, I just want to see the first bank that doesn't take its full amount.

B: (Laughs) No, they're all coming in.

HMjr: Well, - is anybody down there worrying about the pound and the franc?

B: Well, they say they're a little jittery today, but I haven't heard very much about it today.

HMjr: I see. You know - did you know the pound is over 505?

B: Yes, yes - just a sixteenth.

HMjr: Well, when I hear Burgess, I'll give you a ring.

B: Thanks a lot.

HMjr: Right

B: Goodbye.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Wednesday, September 9, 1936.  
9/8/36.

Press Service  
No. 8-31

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2-3/4 percent Treasury Bonds of 1956-59 closed at the close of business Tuesday, September 8, for the receipt of cash subscriptions.

The subscription books will close at the close of business Thursday, September 10, for the receipt of subscriptions in payment of which Treasury Notes of Series D-1936, maturing September 15, 1936, are tendered.

Cash subscriptions placed in the mail before 12 o'clock midnight, Tuesday, September 8, and exchange subscriptions placed in the mail before 12 o'clock midnight, Thursday, September 10, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of cash subscriptions and the basis of allotment will probably be made on Friday, September 11.

---oOo---

September 8, 1936

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After learning from the White House that they were worried about Wilson's appointment, HM, Jr. called up the Attorney General and told him that he was calling in Murphy.

Record of their telephone conversation follows:

HM, Jr: Hello

Operator: Attorney General

HM, Jr: Hello

Homer

Cummings: Hello, Henry

HM, Jr: How are you?

C: Fine

HM, Jr: Homer, I want to tell you exactly what happened here Saturday, see?

C: Yes

HM, Jr: I had been waiting for a week or ten days to put in a man as Assistant Chief - hello?

C: Yes, I hear you.

HM, Jr: And the Chief tried to produce somebody and he couldn't to my satisfaction so I detailed Frank Wilson from Elmer Ireys organization as Assistant Chief of Secret Service on Saturday. Hello?

C: Yes

HM, Jr: As a result of which the Chief walked in here and told me he was going to take an indefinite vacation.

C: You mean, Moran?

HM, Jr: Yes - So, I don't know what he was trying to do. I guess he was trying to put me in the hole. I'm talking very confidentially -

-2-

C: Yes

HM,Jr: - and very personally to you. So, I've thought the thing over and I've found that Murphy has not yet gone to the Coast. So I want to bring Murphy in here quietly to assist Wilson from now until after election, see? I went over - I mean, publicly Wilson is Acting Assistant Chief, see? I signed the document and it stays put. I went over to the White House this morning and it seems they're terribly excited about the whole thing. I saw the President and then McIntyre and Early, see?

C: What are they excited about?

HM,Jr: About our bringing Wilson in and then the Chief going out, you see? So I told them that I was going to have Murphy here in the background helping Wilson.

C: Oh, you mean they didn't want to lose - ?

HM,Jr: Well, they didn't like the whole thing. They didn't like losing the Chief and bringing Wilson in, you see?

C: They didn't like losing Moran?

HM,Jr: Yes

C: And -

HM,Jr: Well, they're worried, I mean, about - regarding the President, you see? So I told them that from now until after the election I'd have Murphy here in the background helping Wilson. I don't know whether you know Frank Wilson, he's a grand fellow.

C: Yes, I don't - well, I probably know him, -

HM,Jr: Well, I tell you, he's the fellow who did the work on Al Capone.

C: Yes

- HM,Jr: And he's one of Elmer Irey's principal men and he's a grand fellow - and I signed it and it stays and of course what they don't want is they don't want anybody from outside coming in, see?
- C: Yes - why was Moran upset, why didn't he take it gently?
- HM,Jr: I don't know. And so I just wanted to tell you what I am doing and, I mean, because I don't --
- C: You saw an article, perhaps, in the paper a couple of days or three ago, -
- HM,Jr: Yes
- C: - in which it was said that Murphy was going to be brought back to Washington -
- HM,Jr: Well -
- C: And that it was all hoey that he had been demoted.
- HM,Jr: No, no - well, he goes - this is fixed, I mean, this decision was made - and you know I am a truthful person - at twelve o'clock Saturday and I didn't know the Chief was going to walk in and do this to me and I couldn't know it, see?
- C: Yes
- HM,Jr: Now, I mean there is nothing but what I tell you - there is nothing below and above it -
- C: Oh, I understand - I was just thinking of the public effect.
- HM,Jr: They won't know that Wilson - they won't know that Murphy's here.
- C: They wouldn't?
- HM,Jr: No - but - and you wouldn't either most likely, but I am telling you because I like to play that way.

C: Oh yes, that's fine.

HM,Jr: I mean publicly Wilson -

C: It would be all right with me if it doesn't get known. But if it gets known there'll be -

HM,Jr: I don't think anybody will know it.

C: - I think it will tear loose again, Henry.

HM,Jr: I don't think anybody will know it.

C: You don't?

HM,Jr: No, and when I told it to the White House everybody - there was tremendous relief that from now until election Murphy will be there.

C: Yes

HM,Jr: Because, I mean they said, 'Who will we contact - who is going to do this, - who is going to do that?' And I said, 'Well, Murphy will be here from now until election'.

C: If you think that that isn't going to be in the newspapers, Henry, I guess you've got another think coming.

HM,Jr: Well -

C: I'll bet on it.

HM,Jr: What's that?

C: I'll bet it gets know in - within twenty-four hours after he's back here.

HM,Jr: I don't think - well, he's - he's out on the golf links today, he hasn't come in yet and I don't want him to come in until the Chief goes.

C: I see.

HM,Jr: See?

C: Well look, isn't that funny that Moran should do that?

HM,Jr: Well, I wouldn't tell anybody but a Cabinet member this thing. But it certainly has put me in a hole and that's what he wanted to do.

C: Well, well, well -

HM,Jr: See?

C: I'm surprised.

HM,Jr: What?

C: I really am kind of surprised.

HM,Jr: Well, I tell you what he wanted to do here a couple of weeks ago.

C: Yes

HM,Jr: He, he offered - he said he was going to resign, he was going to go out and attack you and J. Edgar Hoover. That's what he said he was going to do a couple of weeks ago.

C: You don't mean it?

HM,Jr: Oh yes -

C: (Laughs)

HM,Jr: We - and we talked him out of that. He was going to resign and tell the story as he thought it should be told.

C: I see.

HM,Jr: So, if you think I've had a bed of roses here you're mistaken.

C: Yes - well -

HM,Jr: So he was going to resign and talk.

C: You don't mean it?

HM,Jr: Yes

C: I know what to think about these people who resign and talk.

HM,Jr: Well, that's what he was going to do. Well, instead of -

C: You know, I think there is no creature lower than a man who is in the inner council and then resigns and then goes out and talks.

HM,Jr: Right - well, now he's going to take at his own volition an indefinite vacation.

C: Yes

HM,Jr: See?

C: All right

HM,Jr: And mind you, I gave him this extension of a year because he said he wanted to guard the President's life from now until election time. Now, that's why he got the extension. And so on the first of September he walks out on me.

C: Yes

HM,Jr: See? Now, of course Murphy knows the White House details and he knows all about handling the President and all that stuff and I can't afford to take a chance and frankly they were all up at arms this morning.

C: Yes, very -

HM,Jr: What?

C: Very distressing -

HM,Jr: Yes - see?

C: All right, Henry.

HM,Jr: So, if you will bear with me and if there is any change I'll tell you exactly - and the story is just word for word as I gave it to you.

C: Yes, I get you.  
HM,Jr: See?  
C: All right, Henry.  
HM,Jr: Thank you.  
C: Goodbye.

HM,Jr. checked up on Wilson's background and a copy of the report is attached.

HM,Jr. called McIntyre and told him that he was sending Murphy in to see him at 3 o'clock and that Murphy would be on hand to do anything that the White House wanted. HM,Jr. also told McIntyre about his conversation with Homer Cummings. Later McIntyre phoned and said that he talked with Homer Cummings and explained the whole thing to him. He told him that as between the White House and the Treasury, that this was what they wanted; that the White House wanted Joe Murphy back and that they worked this thing out with me. After explaining this whole thing to Homer Cummings, he said it was O. K.

RE. FRANK J. WILSON.

Mr. Wilson was in the real estate business in Buffalo, N. Y., from 1907 to 1917.

He entered the U. S. Army on August 27, 1917, and was sent to the Officers Training Camp at Fort Niagara. He received an honorable discharge from the Army on September 29, 1917.

As a result of a civil-service examination, he was appointed a claim examiner for the New York State Industrial Commission on October 15, 1917, which position he held until December 31, 1917. As a result of a civil service examination, he was appointed an investigator for the New York State Food Commission on January 2, 1918, and held that position until June 30, 1919. These two appointments in New York State were made during the period Hon. Alfred Smith was Governor of the State.

The New York State Food Commission operated jointly with the United States Food Administration, and Mr. Wilson was loaned to the United States Food Administration, his salary being paid by the State.

Upon the close of the activities of the New York State Food Commission and the United States Food Administration, after the war, the enforcement of the Lever Act and certain regulations relating to foods was transferred to the United States Fair Price Commission, a part of the Department of Justice. Attorney General Palmer then appointed Mr. Wilson Deputy Fair Price Commissioner for New York State, which position he held until June 30, 1920.

On August 3, 1920, as a result of a civil service examination, Mr. Wilson was appointed a Special Agent in the Internal Revenue Bureau by D. F. Houston, Secretary of the Treasury. He was promoted to the position of Special Agent in Charge, Intelligence Unit, on June 1, 1934.

EXCERPTS FROM REPORT ON SECRETARY MORGENTHAU'S  
PRESS CONFERENCE, SEPTEMBER 8, 1936.

H.M.Jr.: I'm going to tell you fellows something and I'm going to ask you -- is Lins here? -- I'm going to put myself in your hands and I know I'm going to be all right. Chief Moran came in and he's not well; Saturday he came in and asked if he could go out -- he wants to take a vacation. He doesn't know when he's going to come back. The old man hasn't slept and he is not well. And I said all right. He's not well. And at twelve o'clock Saturday I called Murphy back because, after all, I'm responsible for the President's life in the final analysis. I'm going to ask you boys for once not to write anything. So I called Murphy back and will keep him here until after election to contact the White House, and then he will go out to his assignment on the West Coast; that's the whole story and I would appreciate it if you would lay off it.

Q. Does Mr. Cummings agree to that?

A. I called Mr. Cummings up this morning and told him the whole story, and, as far as I know, he's satisfied.

Q. Mr. Secretary, that story will get out any way. Could we write it and not pin it on you? Nothing the matter with that story, Mr. Secretary. I think if we wrote it the way you told it it would make a good impression.

A. Herbert?

Gaston: I don't think it would do any harm; the story here is about Wilson.

Q. I understand Wilson is taking Moran's place.

H.M.Jr.: Moran is gone temporarily; he's sick; the only thing I could do was call back Murphy.

Q. I can't see the slightest harm in that; he's the only man for the job; you can't jeopardize the President's life.

A. I wouldn't bring that in. I would skip the part about the President's life.

Gaston: I think it's all right. Frank Wilson, a man from outside the service, is coming in here to be acting chief and in view of Mr. Murphy's experience he's been called back temporarily to work with Wilson.

H.M.Jr.: Due to the fact that Chief Moran is sick. But I'd leave out about the President's life. Have you gotten it the way Herbert said it. Say it again, Herbert, the same as before.

Gaston: Frank Wilson has been transferred from the Intelligence Unit to the Secret Service, and on account of the fact that Chief Moran finds it necessary to go away on account of his health, it's necessary to bring someone in who's thoroughly familiar with the routine to work with Mr. Wilson, and Joe Murphy has been brought back for that purpose.

Q. The fact is I was going to ask you about it; I got a tip on it.

H.M.Jr.: That's the whole story.

Q. Will Wilson be in charge or Murphy during the temporary period?

A. Chief Moran is in charge.

Q. You were going to bring Murphy back anyway, weren't you, Mr. Secretary, just as soon as things cleared up? I didn't mean this week.

A. Listen, it's getting awfully late and you fellows have a big financing story. Bell says the financing story is for tomorrow morning's papers.

## TREASURY DEPARTMENT

Washington

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FOR IMMEDIATE RELEASE  
Tuesday, September 8, 1936.

Press Service  
No. 8-32

Secretary of the Treasury Morgenthau today announced the appointment of Frank J. Wilson, to be Acting Assistant Chief of the Secret Service, effective immediately. Wilson comes to Secret Service from the Intelligence Unit of the Bureau of Internal Revenue, with which organization he has been identified since August 3, 1920, with the exception of six months in 1926 when he was engaged in private business in Florida.

Since June 1, 1934 Wilson has been Special Agent in Charge of the Cleveland Division, comprising Ohio, Indiana and Kentucky.

In 1930 and 1931 Wilson was detailed to Chicago to take charge of the Government's income tax drive involving Al Capone and his associates. Wilson's deciphering of impounded Capone bookkeeping records enabled the Government to connect Al Capone with various underworld activities, proving income tax evasions and resulting in an eleven year prison sentence; ten years in federal prisons and one year in the Cook County (Ill.) jail.

A few days after the kidnaping of the Lindbergh baby in March, 1932, Wilson and other Intelligence Unit agents were sent to aid in the case. He has among his prized possessions personal letters from Colonel Lindbergh, expressing appreciation for his assistance.

Wilson was born at Buffalo, N.Y., May 19, 1886. He graduated from Buffalo high school and spent one year at the University of Buffalo. For ten years he was engaged in the real estate business in Buffalo.

He enlisted in the army in 1917, but was discharged after a month because of defective eyesight. From January 2, 1918 to September 1, 1919 he served as investigator for the joint commission of the New York Fair Price Commission and the United States Food Administration. On September 1, 1919 he became vice-chairman of the commission named by the Mayor of Buffalo to dispose

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of surplus army foods, selling more than 300 carloads of foodstuffs.

From January 1, 1920 to August 3, 1920 he served with the Department of Justice as a deputy of the Fair Price Commission for New York State.

From 1922 to 1925 he was Special Agent in Charge of the Intelligence Unit at St. Louis.

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September 8, 1936

The President said that McIntyre and Early were upset because I was putting Wilson in to succeed Murphy; that Wilson was a strong Hoover man; that he had been with Hoover in the Department of Commerce; then in the Post Office as an efficiency man, and when he left there they had lots of troubles straightening out what he had done. I personally think that they have Wilson mixed up with Harold Graves.

I asked the President what his plans were after Election? Was he going to take a vacation? He said if I would not breathe it to a soul, he would tell me. He was thinking of leaving here on November 15th on a fast cruiser and go down to Buenos Aires for the North and South American peace conference; stay there three days and get back here about the 15th of December. I told him I thought it was a grand idea. He said the alternative plan was to go down to Warm Springs and do the usual. His reasons for going down to Warm Springs would be that he has to get his Budget ready and many other things.

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I strongly urged him to go South America, first because he needed it on account of his health. He said, "My health is fine," but I replied, You have got just eight weeks to go until Election and then I think you should really take a month off. I said, If you will see Bell and me 48 hours before you leave and tell us what you want on the Budget, we can get it ready for you.

He said, I will need at least two cruisers and a destroyer and don't you think I ought to announce it before Election that I am going? I said, No, absolutely not. In the first place, it will not get you any votes inside of the United States and, in the second place, it will only stir up discussion and certainly the Navy can get these ships ready without anybody knowing that you are going on this trip. I said, I suppose you will want me to stay here in Washington during that period because I will be the ranking Cabinet member and he said, Absolutely.

I asked him whether he wanted me to answer Father Coughlin's attack on me Sunday, in Chicago. He said,

Absolutely no. Send it over to me. I have not seen it. He said, I am handling that direct, myself, with Father Burke.

I asked him if he wanted Frances Perkins and me to go with him to the State Convention at Syracuse. He hesitated a moment and said, I have not thought of it. I think it is a good idea. Inasmuch as he hesitated, I told him to give it additional thought.

He is going to the dedication of the Taconic Highway on September 19th.

He handed me a letter from the Attorney General about the Louisiana tax case; also, in reference to Bob Jackson's handling the same. I said that Bob Jackson had told me that he would resign before he would handle it. The President said, quick as a flash, I thought you told me that Bob Jackson would handle it. I said, That is correct, but since then he has evidently changed his mind. The President handed me the memorandum of August 23rd from Homer Cummings and said, I have had this for a long time and should have given it to you before.

I gave the President Report No. 1, which he read with great interest and seemed very much pleased. (Intelligence Bulletin No. 1, Relative to Narcotic Smuggling on the Pacific Coast including Alaska and Hawaii. Copy attached.)

He seemed in a fine humor and extremely friendly. He said he most likely will have a Cabinet meeting this Friday.

Muskrat

She said asked  
me to get this  
for him. (I think  
to take to White House)



Office of the Attorney General  
Washington, D.C.



August 23, 1936.

My dear Mr. President:

I talked with Mr. Jackson about taking over the trial of the Louisiana civil tax cases, as suggested by the Treasury, within whose jurisdiction these cases now rest. Mr. Jackson is exceedingly averse to undertaking this assignment. He feels that the situation should be reviewed before he is definitely asked to do so.

In view of this situation and in view of the fact that there has apparently been some misunderstanding as to the status of these matters, and perhaps even of the course pursued by the Department of Justice with reference to the criminal cases, I asked Mr. Jackson to prepare a brief memorandum, which I inclose herewith. It is in three parts, as follows: (1) History of the Louisiana Criminal Cases; (2) Louisiana Civil Cases Pending; (3) Personal Attitude. This memorandum sets forth the situation succinctly. I hope you will find time to read it.

Respectfully yours,

Attorney General.

The President,  
The White House.

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## HISTORY OF LOUISIANA CRIMINAL CASES

Indictments were found against twenty-four defendants on tax evasion charges. In some cases, if one defendant were guilty, another could not be, but all against whom probable cause existed were indicted to avoid any claim of partiality and to prevent indicted defendants from throwing blame to unindicted persons.

The strongest case was selected as that against Joseph Fisher. The Government was represented by Ex-Governor Dan W. Moody of Texas. The case was won and a sentence imposed of eighteen months and costs. The second strongest case was next selected as that against Abe Shushan. Governor Moody was requested to try the case, but did not participate for reasons which we have never known. The case was tried by Colonel Amos W. W. Woodcock, chosen for the purpose by the Treasury. It resulted in an acquittal.

Six pleas of guilty were then entered which disposed of the next strongest group of Government cases, and resulted in aggregate fines, penalties and tax collections of \$117,900. In imposing the fines Judge Foster of the Circuit Court of Appeals, who was sitting as a District Judge, announced from the bench, so it is reported to us, that no jail sentences would be imposed in any of the income tax cases.

This left the Department of Justice with a group of cases to try or to dismiss. Those left were all weaker than the one which had already been lost. They were also cases in which the defendants were too confident to plead guilty, even though the Court indicated that nothing but fines would be imposed.

The United States Attorney, Vicksburg, not an appointee of this administration, but appointed by Judge Borah, United States District Judge of that District, advised the Department of Justice that these cases could not be won. Colonel Woodcock, chosen by the Treasury to represent it in the prosecution of the cases, has advised this Department that in his opinion the cases could not be won.

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A conference was asked with the Secretary of the Treasury as to further procedure and was declined by the Treasury.

Under these circumstances the Department of Justice left to the regularly constituted United States Attorney authority to dispose of the remaining cases according to his best judgment, advising him, however, that the Treasury felt that the cases should be tried and won. We were advised that that was the attitude of the Treasury's investigation staff, although the Treasury had declined a conference on the subject, which, of course, left its attitude open to different inferences.

## LOUISIANA CIVIL CASES PENDING

These cases will be tried in New Orleans on the field calendar of the Board of Tax Appeals at the option of the taxpayer. The Government can not insist on trials in Washington.

Some 15 or 20 cases are already pending before the Board, and some 60 or 70 are in process of asserting deficiency, to come before the Board.

All of these cases total less than \$1,000,000 of claimed taxes and penalties, although some claim two penalties, one for fraud and one for negligence. No case amounts to over \$60,000. Their average is very small, and some are petty. Many of the taxpayers are without assets and the tax assessment, if won, not collectible. For this reason there may be a number of defaults.

Each of these cases involves three or four years of tax. The Government's evidence to prove unreported income consists of unexplained bank balances or increases in net worth, plus living expenses, from which the inference is to be drawn that income was received in excess of that reported. This is a most unsatisfactory basis for proof, and each case involves a long investigation of detailed items of property and income. In those cases where we contend that there was graft or gambling income the Government testimony in the main is that of accomplices or otherwise unreliable persons.

Many of these cases, because of the Louisiana community property law, are against both husbands and wives, or in several instances against estates and widows. Fraud penalties are asserted against wives or widows, although it is likely to be asserted, and will be hard to disprove that the wives or widows knew little about the husbands' transactions.

If a no-compromise policy is to prevail as to these cases, it means the trial of fifty to one hundred cases, involving from two hundred to four hundred tax years and certainly not less than five thousand disputed income items, as well as fraud and negligence issues to sustain the penalties sought.

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If a policy of compromising cases, or of compromising doubtful issues in contested cases is to prevail, such compromises can only be made after detailed investigation of each item.

It is my judgment that there are from two to three years of steady work for whoever is to supervise the trying of these cases in the filing of answers, preparation and trial, and briefing. They involve no question of law, and no one case will settle any group of cases, since each presents only a question of fact to be decided by the evidence available as to the particular taxpayer.

## PERSONAL ATTITUDE

I am confident that the President would not ask me to try these civil cases if he were fully informed about them.

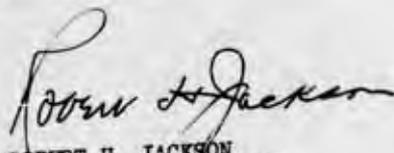
I advised you that I would not care to try the criminal cases for this Department, and I have no different feeling for the civil cases pending in the Treasury Department.

To spend from two to three years on cases of this kind, which can only be regarded as comparable to police court practice, is not consistent with the duties which I have assumed in other litigations of importance, or to my duties as head of this Division.

Wholly apart from the inconsistency of such an assignment with my Government work, I am personally unwilling to spend the months in Louisiana which would be necessary to the trial of these cases, or to be committed to a task of such indefinite duration in the Government service.

As you know, I am ready to go the limit for the President. I am confident that on examination of these cases he will agree that they should not be given an exaggerated position in public attention, but should be handled as regular routine matters by Treasury attorneys who are fully competent, and that no necessity of the Administration calls for such sacrifice on my part.

If there are reasons for it that have not been disclosed to me I would, of course, consider them.



ROBERT H. JACKSON  
ASSISTANT ATTORNEY GENERAL

INTELLIGENCE BULLETIN  
RELATIVE TO NARCOTIC SMUGGLING  
ON THE PACIFIC COAST INCLUDING  
ALASKA AND HAWAII

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1. This is the initial issue of a weekly Intelligence Bulletin which will be distributed from the office of the Agent in Charge of Narcotic smuggling intelligence with headquarters at the Custom House at San Francisco, California. This set up was recently authorized by the Secretary of the Treasury as a step towards broadening the facilities of the present Treasury Enforcement Coordination System now in effect.

2. At the present time this Intelligence Bulletin is being distributed to the following law enforcement agencies of the Treasury Department on the Pacific Coast including Alaska and Hawaii.

Treasury Department Coordinators at  
Seattle, Washington,  
San Francisco, California,  
Los Angeles, California.

Collector of Customs at  
Juneau, Alaska,  
Seattle, Washington,  
Portland, Oregon,  
San Francisco, California,  
Los Angeles, California,  
San Diego, California,  
Honolulu, T.H.

Supervising Customs Agents at  
Seattle, Washington,  
San Francisco, California,  
Los Angeles, California.

Customs Agents in Charge at  
Portland, Oregon,  
San Diego, California,  
Honolulu, T.H.

U.S. Treasury Attaches and Representatives at  
Shanghai, China,  
Hong Kong, China.

U.S. Consuls at  
Ensenada, Mexico,  
Mazatlan, Mexico,  
Mexicali, Mexico.

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District Supervisor, Bureau of Narcotics  
Seattle, Washington,  
San Francisco, California.

Agent in Charge, Bureau of Narcotics  
Los Angeles, California.

3. Each of you will appreciate the value of secrecy in connection with the information contained in the Bulletins and it is expected that you will keep it strictly confidential.

4. While this set up has been in operation less than one week yet information gathered would indicate that there is a well organized ring on the Pacific Coast engaged in smuggling Japanese morphine. The representatives of this organization are believed to be Y. Yamamoto, 1303 Judkins Street, Seattle, Washington, N. Ishibashi, 633 N.E. Wasco, Portland, Oregon. These representatives are intimately associated with one Yoshihara and Martin Kamouchi. The latter living in the 900 block on Irolo Street, Los Angeles, California. Information is to the effect that Kamouchi frequently poses as a diamond broker and frequently visits San Diego, California and Tia Juana, Mexico where he has conferences with certain Japanese and Mexicans in Pauls Cafe.

5. Some of the automobiles used by the Yamamoto organization are as follows:

A-6358	1935	Ford Sedan	C.T. Takahashi, 212 5th Ave. S.
A-6359	1934	Studebaker Sedan	" Seattle
A-6360	1936	Ford Sedan	" "
A-31-234	1934	Chevrolet Sedan	S. Fujii, 655 Weller St., Seattle
A-52703	1934	Ford Sedan	Geo. Reynolds, 3915 40th Ave, S.W. Seattle
A-56101		Studebaker Sedan	C.T. Takahashi
111-209	1936	Plymouth Sedan	K. Okamura, 3227 19th Ave, S. Seattle
113-001		Stutz Sedan	K. Yamamoto, 1303 Judkins St. Seattle
B-25660	1935	Chevrolet Sedan	Henry Omi, 1333 Fawcett Ave. Tacoma.

6. Information has been received to the effect that narcotics are being thrown overboard from the "General Vessels" of the States Steamship Company near the mouth of the Columbia River. It would seem that these vessels are hot and should be given as much supervision as possible when they call at any port in this area.

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7. Information has been received that large quantity of opium is concealed on the S.S. President Pierce in San Francisco on July 24, 1936. This opium said to be hidden in Number 10 hold and destined for Los Angeles where it is to be dropped into the water as ship is sailing. In case no landing is effected it is to be carried on to New York and unladen on the vessels return to Los Angeles. One Tang Dong Number one saloon waiter on the vessel is said to be financially interested. Vessel heavily guarded and searched but nothing contacted. Heavy surveillance should be kept on this vessel at all ports where it touches on its return from New York. Supervising Customs Agent at New York notified.

8. One McHenry convicted of smuggling thirty (30) ~~bars~~<sup>loaves</sup> of opium from the Navy Transport Chaumont about four years ago is now employed aboard the Standard Oil Tanker S.S. District of Columbia. Mc Henry was a witness for the Government in the said case and it is thought by those familiar with the case that McHenry learned his lesson and will not again engage in smuggling narcotic drugs. Having been formerly convicted for smuggling opium and now aboard ship it might be well to contact him where ever possible with a view to securing information from him.

9. One Dr. Crow and one Billings, former inmate of San Quentin Penitentiary, reported to be making counterfeit five dollar bills. Wilbur Church of Long Beach, California, son-in-law of Billings, is being used to pass these counterfeit bills. Secret Service at Los Angeles notified.

10. One Hashimoto of the Hardware Merchants Company, 757 Tuna Street, Terminal Island, California is receiver for supposed military films received from the Japanese Tuna boats. This information conveyed to Naval Intelligence at Los Angeles.

11. Japanese Tanker Tatakawa Maru used a search light to observe soldiers landing in the war game at San Simon, California on July 20, 1936. This information conveyed to Naval Intelligence at Los Angeles, California.

12. Officers supervising the Asama Maru in San Pedro on July 29, 1936 report that junior deck officers were stationed at strategic points below decks and that members of the crew were making regular patrol in all open staterooms and passageways. The open cargo hatches also had men stationed at escape doors.

13. One Fred Newcomb, 44th and Western Avenue, Los Angeles, together with two men, John Gibson, Winterhaven, California and Nick Henderson, Winterhaven, California have been reported as making frequent trips to Yuma, and Nogales, Arizona for the purpose of smuggling narcotic drugs. On these occasions they have been observed driving the following described automobiles:

Auburn Sedan, 1936 model, black body, fender wells, built-in trunk on back. California 1936 license No. 5-U-1258. Registered owner Fred Newcomb, 1717 W. 45th Street, Los Angeles.

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Intelligence Bulletin.

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Chevrolet sedan, Engine 5984639. California 1936 license No. 5-U-3456. Registered owner Joan Harrison, Indio, California.

Ford sedan, Engine A-1132919. Registered and legal owner M.L. Fleming, 626 "G" Street, Brawley, California.

It is our information that Fred Newcomb now operates an auto wash rack at the intersection of 8th and Vermont Streets, Los Angeles, California.

14. Information is received from the Coast Guard Commander of the Bering Sea Patrol in the case that recently a transaction occurred whereby the American Steamship Elwyn C. Hale, the American Gas Screw Golden State and the Japanese Steamship Taihoku Maru made contact somewhere in the Bering Sea as a result of which one hundred seventy five thousand cod fish were transferred from the Japanese vessel Taihoku Maru to the Golden State. The S.S. Elwyn C. Hale is owned by the Bristol Bay Packing Co. of San Francisco and has not been sighted by any of the vessels of the Bering Sea Patrol Force. A later radio intercept

indicates that the master of the Japanese vessel was endeavoring to arrange a contact with the American vessel. The purpose the contact is not known but there may be a possibility of a transfer of narcotics for ill legal entry into the United States.

*Daniel P. Bailey*

Daniel P. Bailey,  
Customs Agent in Charge,  
Narcotic Smuggling Intelligence.

## MEMORANDUM

September 9, 1936.

To: The Secretary  
From: Mr. McReynolds

I have just completed at 3:40 P. M. a telephone conversation with Chief Moran. I requested the Chief to remain away from the Treasury for the rest of the month of September and he promised to comply with this request.



30.

