H.M.Jr: You see, George? You do these things and nobody thinks of it the way they do, and -

Haas: I know, Mr. Secretary. I'll take - I'm trying to protect you on it, because you could make a very serious mistake.

H.M.Jr: Well, I haven't yet in three years.

Haas: I know it, but - well, I'm putting myself in an embarrassing position just trying - You might go ahead, Larry, and explain, I think, the difficulty the Secretary has not clear to him; that is, you can't ignore the maturity of your bond. You spoke of merchandise. The point is that the call date and the maturity describe your merchandise. You can figure your yield to your call, but you can't ignore the maturity of your bond. You could take this illustration; say you've got a five year bond and it's maturity was 1990; you certainly couldn't ignore the maturity date, see?

H.M.Jr: Ah-ha.

Haas: It happens that the bonds now outstanding - that the call dates are very narrow, and for practical purposes you can almost ignore them. But as soon as you start spreading them, you can't ignore them. Otherwise, you get in trouble, I think.

Seltzer: If you figure that will go on a 240 basis -

H.M.Jr: I don't figure anything. I say now - what I am trying to say - what they tell me after careful checking is that we can sell at 2½ percent, '49-'54, and they figure that there would be well over a point premium.

Haas: Well, it is possible. That may go. It is irrational. It is possible it might to. And I'd say the only person that you go to - it's not arithmetic; it's people in the market. If they're willing to pay it - they might not, but if they will pay it - I mean that's the test.

H.M.Jr: Well George, take your twenty year bond over at Farm Credit. What's rational about it? - I mean to -

Seltzer: You have a high coupon; that makes the difference.

H.M.Jr: But still you compare it with your '56-'59 - got a three year spread, and there is practically no difference.

Seltzer: If you were a banker, thinking of buying bonds: You have a 3 1/8 here, a '49-'52, outstanding; you can buy that to yield 239. Now, if new bonds were to sell on about the same basis, 240, I'd rather buy the 3 1/8. It has a two year earlier final maturity. It has a greater tax equivalent yield, because, the coupon rate being higher, you get greater tax exemption. I don't see why the new bond would be as good as this 3 1/8 maturing in '52, also callable in '49.

H.M.Jr: Let me put it to you a different way. Are you arguing about the '49 date? Are you fellows in agreement that we should put it at '49?

Murphy: No, it's the final maturity. If you move the final maturity back, the call period would be moved back automatically.

H.M.Jr: Are you arguing against '49?

Seltzer: No, it was the '54 we were arguing against.

H.M.Jr: Well, let's just get - are you in agreement on the '49?

Haas: I could answer that. I'd like to see you spread the call date about five years if you can, and if '49-'54 will go - I'd like to see you price your issues - I don't think you've got the risk now that you had in some of your early financing. I'd like to see you do it, if the market thinks it can take this '49-'54. But I think I owe this to you; it's part of my duty to say that it's a closely priced issue.

H.M.Jr: Well, let me say this to you: What 2½ percent bond do you recommend? I've asked all these fellows and - now go on record. What 2½ percent bond do you recommend?

Haas: (To Seltzer) What's that, that '48-'53?

Seltzer: You can say '48-'52 or '48-'53.

Haas: If you want to be on the same basis that you have been previous, you can get along in fine shape on an issue of that sort. If you want to price them tight, and I am sort of inclined to feel that that is not bad, fine. I think they have been priced a little loose before. I think your situation is more comfortable, and if Burgess and those other people say a '49-'54 would go over - and I'll feel satisfied, in view of the fact that I have cautioned you, that you have understood you are pricing it close. I think you'd be justified in taking the risk, but you are taking more risk than in previous financings.

H.M.Jr: I don't get it yet. Are you arguing for a '49-'53? Is that what you are arguing for?

Haas: I'd say if you want to be comfortable like you have been in past financing, '48-'53 is your bond.

H.M.Jr: Well, no one - everyone in the Street, they even say we can go to '50.

Bell: Have you talked to Burgess this morning?

H.M.Jr: No.

Bell: I talked to him on a different matter this morning, and he said there had been a little change in feeling particularly because of this European situation; that it was disturbing up there; and he talked to several of the bankers this morning and they had a feeling that the '49 was right but the '54 might be a little long. They want to drop a year.

H.M.Jr: Well, that's something else. But these boys have been talking '48.

Murphy: That's an additional advantage to the Government. Assuming that there is going to be a '53 maturity, the nearer the call date the greater the advantage to the Government.

Seltzer: You don't pay for it. You're not giving the buyer any more right.

H.M.Jr: You mean to say if you borrow money at 2½ percent

for 12 years it doesn't cost you more than if you go to 12½?

Bell: Going on the theory, Mr. Secretary, that you are borrowing money for 17 years and not 12 years.

Haas: Sure, you have an option on the low coupon. Chances are you won't call the bond whether it's '45, -7, or -8.

H.M.Jr: What?

Haas: Being a low coupon, I think your theory is that the bond, chances are, will not be called; therefore, you are selling a 17 year bond instead of a 12.

Seltzer: Selling just as long a bond as in the other case.

Haas: Only you have a slight advantage.

Seltzer: '48-'53 is just as long a bond as the '49-'53, except that you have an additional privilege to call it a year earlier.

H.M.Jr: Oh, I didn't get it. I thought you were talking about it from the other way. No, there's no difference.

Seltzer: And to be perfectly safe, it seems to me a '52 would be much safer than a '53 or '54, just on the basis that you have outstanding right now a '49-'52 bond which would have the identical maturity date, December 15, '49, or '52, selling to yield 2.39.

H.M.Jr: Well, let's just see what Burgess says. I won't say anything.

Lochhead: Mr. Morgenthau, if you are going to put out a note also, that is your safety valve to go against the other thing, because if you just put down a bond alone you are taking a risk, but you're putting out a note; they have the choice. That's why I think you're fairly safe.

Haas: Well, the note price rich can ruin your bond issue.

H.M.Jr: They say just the opposite. I can't tell you how they reasoned it. They say that -

Haas: Well now, it's - I don't know yet how you are offering your cash.

H.M.Jr: Just for bonds.

Haas: Just for bonds? Your cash? Well, that makes a difference. Well then, disregard what I said.

H.M.Jr: It's all bonds.

Haas: Well, disregard what I said.

H.M.Jr: And they said it would make - a richer note would assure it. I can't understand just what, but they say the people - there isn't a difference and it works out. If it is a very thin note, the people will sell the bond, get the premium on the bond, depress the bonds, and buy the note, if the note is priced -

Haas: Well, there is no - I'm not in disagreement.

H.M.Jr: No, the bond is all cash.

Haas: That makes the difference.

Lochhead: You have to feel there is a double financing here; one affects the other.

Harris: The people in the Street seem to feel that a 2½ '50-'53 or '50-'52 - they were in line for a two or three year period.

H.M.Jr: (On phone) Hello? (Has conversation with W. R. Burgess, timed in dictaphone record at 11:20 A.M., December 5, 1936). (Conversation follows on next page).

Well now, listen, I'm bearing down on you fellows but you can take it. Now George, after listening to this what do you think?

Haas: Well, I think he's lining up the way we're thinking; I mean Burgess.

H.M.Jr: I see.

Haas: In brief, that's it. In short, I think that's it.

December 5, 1936
11:20 A.M.

Operator: Dr. Burgess.

Burgess: Well, how's your conscience been working?

H.M.Jr: Well, my conscience is clear thank you.

B: (Laughs)

H.M.Jr: How is the market, which interests me more.

B: Market's very steady and it's all right. You've heard from London; Knoke talked to you about that, didn't he?

H.M.Jr: Yes. But now, how does it look to you this morning?

B: Well, I am always a hundred percent frank with you. I'm -

H.M.Jr: I hope so.

B: Ah - I've got a little bit of - well, my feet are down below 70 about the - the bonds.

H.M.Jr: Yes

B: I have a little leaning to cutting off a year at the end.

H.M.Jr: Ah-ha.

B: Because - ah - I confess Ben Levy shook me a little bit this morning. He thinks it's too long.

H.M.Jr: Yes

B: And Rentschler yesterday. And Monday is going to be just the day in England when they pull their - shoot some more of their fireworks in the air.

H.M.Jr: Yes. They - Parliament meets at three o'clock English time, which is 5 hours earlier here.

B: Just the wrong time for us.

H.M.Jr: Be ten o'clock here.

B: Yes

H.M.Jr: Their Parliament starts at ten and they'll be at it all day.

B: Yes, yes, - which makes a rather bad background for us.

H.M.Jr: Yes

B: And I think - I was out to dinner last night, talking with some people, and this - this thing is being taken constantly more seriously here.

H.M.Jr: Ah-ha.

B: That is, the implications of it for the British, and so on.

H.M.Jr: Well, they're talking now - your - you feel '49-'53?

B: That's the way I lean, yes.

H.M.Jr: Ah-ha.

B: I'm not a hundred percent that way. If you were bold this morning and said, "Oh well, hell, let's go ahead and take a chance," why, I'd say, "O.K., general." But I'd lean a little toward '49-'53.

H.M.Jr: Anybody down there talking '48?

B: No, I think that would be too generous.

H.M.Jr: That would be too generous?

B: Yes

H.M.Jr: But just a year off on the other end?

B: That's it, yes. Yes.

H.M.Jr: Well, what would the temperature of your feet be if it was a '49-'53?

B: Oh, that'd be all right. They'd be nice and comfortable.

H.M.Jr: They would be?

B: All wrapped up in a nice warm rug.

H.M.Jr: Ah-ha. Because you were very enthusiastic yesterday afternoon about a '49-'54. I think you said it was lovely.

B: Well, I can be wrong, you know.

H.M.Jr: Oh yes, but I mean I just -

B: yesterday or this morning.

H.M.Jr: Yes, but right now '49-'53?

B: Yes.

H.M.Jr: Well, I got my gang in here. Let me talk - we - we're using harsh words just now, and -

B: Well now, while - while you're on the phone -

H.M.Jr: Yes

B: The one and a quarter percent note is of course plenty rich.

H.M.Jr: Yes

B: I think that - that perhaps on - on the figures, of course, it figures as you said last night. The real question is what the note market will do, and the bond market, and my guess is that - that if you put that out it may - it may depress the note market just a shade, which is what we want.

H.M.Jr: Yes

B: And be good for the bond market.

H.M.Jr: Yes

B: You put out a one and an eighth and it works the other way.

H.M.Jr: Yes

B: But the note is a little rich, I'll confess. I wish it were not so rich.

H.M.Jr: Yes

B: On the other hand, the - the one and one eighth, while it would go, would bring about all that churning. Now, the ideal thing would be something in between.

H.M.Jr: Yes

B: So that - if I were doing it just personally I'd think a lot about opening up that June issue again.

H.M.Jr: Yes

B: But I know that doesn't appeal to you much.

H.M.Jr: No.

B: It is just right on the price.

H.M.Jr: Yes

B: At 101.

H.M.Jr: Well, as near as I can get it, the - the only - the only risk involved on a one and a quarter note - well, there's no risk involved.

B: There's no risk involved at all as to what it pays. The only risk is that you might get more exchanges into notes.

H.M.Jr: Well, we're not going to of- - oh yes, well then -

B: More exchanges into notes.

H.M.Jr: Well, I wouldn't mind that.

B: You might get fifty-fifty.

H.M.Jr: Well, that wouldn't bother me.

B: No, I think that's all right. It would mean you were supplying the demand. I think the bond and the note would -

H.M.Jr: Well, if -

B: - would be together in price pretty much.

H.M.Jr: Well, if - supposing you had fifty-fifty. That would mean that that'd be that many less of that bond outstanding too.

B: That's right, yes.

H.M.Jr: Which would make it a little bit more attractive for the people who buy it for cash, wouldn't it?

B: That's right, yes.

H.M.Jr: Huh?

B: Yes, yes. Oh, this - the richness of the note helps the bond. It's the guarantee to the bond; there's no doubt about that.

H.M.Jr: Yes. But you - you have no change of thought, you still go along on the new money all bonds?

B: That's all right. If I were doing it myself, I'd do it the other way. But - but you can work it out either way.

H.M.Jr: You'd do it how?

B: I'd - I'd split the new money, I think.

H.M.Jr: Yes, but not with a one and a quarter note.

B: But - no, I'd do a one and an eighth note, I think, then.

H.M.Jr: Yes. No, that - that -

B: But I think this other program is just as good.

H.M.Jr: No, then you get right back to where you were and your - your note is - is too fine, and then - then I'd worry.

B: Yes

H.M.Jr: I think the one and a quarter note is an insurance policy.

B: I think - I quite agree. Just - just the way we've done it before in the past.

H.M.Jr: Yes

B: On one - one or two occasions. So I think there's no use opening up that cash thing.

H.M.Jr: Well -

B: I'm perfectly content.

H.M.Jr: Are you going to talk to any more people?

B: I wasn't planning to, no. I hate to talk to them too much at the last minute.

H.M.Jr: Well, let - let me do a little more talking and see if we can't get a meeting of minds here, which is - I like to have everybody if we can be together.

B: Yes, yes.

H.M.Jr: So - You know, I want to say this, which is interesting. The only country that's selling on balance stocks is England. All the rest of Europe is buying.

B: Yes, yes.

H.M.Jr: That's been so for two or three days.

B: Yes

H.M.Jr: So, after all, if - let's say that they are badly upset there Monday - oughtn't it to bring a little capital this way?

B: Oh, I think it might, but the market is - the hope is probably one of psychology, I think.

H.M.Jr: And of course our -

B: As far as the actual movement of money goes, why, we're in fine position, of course.

H.M.Jr: Yes. Well, these girls will have their fun.

B: (Laughs) That's right. That's right, yes.

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

B: That's right. I'll be right here.

H.M.Jr: All right.

H.M.Jr: I see.

Haas: The only other thing we had in mind was we thought at this time, when you didn't have so much to worry about, when you are sitting so comfortably, you could begin this process, which I think you'll have to start, of longer call periods. You are doing that even taking the 4 year one. I'd be interested to know what Burgess would think of making it a 5 year call - even the maturity at '53 and going to '48. He may say that would sweeten it too much; logically, it shouldn't, but maybe it will in that market. It gives you something in addition; it doesn't give the bondholder anything. It gives him less.

Bell: Well, the shorter you make it the more liable they are to figure to the call date and not the maturity.

H.M.Jr: Now Murphy, you're the hardest fellow to down.

Murphy: Well, I'm probably the most enthusiastic for the longer call periods. I would much prefer the '48-'53. If it is richer - I see no harm if the market gets a little more and the Treasury definitely gets more. I don't see why we shouldn't grow rich together. I should much prefer a '48-'53.

H.M.Jr: That's five years, isn't it?

Murphy: Yes, sir.

H.M.Jr: Well, let me put it the other way. Supposing we decide to do a '49-'53. Then what? Is it all right? Will it go?

Murphy: I think so. I don't see why it shouldn't.

Seltzer: It's a better bond than the '48-'53, from the investor standpoint.

H.M.Jr: Do you think the '49-'53 will go?

Murphy: Sure.

Seltzer: Sure.

H.M.Jr: You said a '49-'54 would be a failure (to Seltzer)?

Seltzer: I certainly think it would be a very dangerous one. I don't think a '49-'53 would be as good as '49-'52 on the figures that I have right in front of me. I think you're cutting it a bit when you're making it a '53 maturity, final maturity - but I think you are in a position to do it.

H.M.Jr: Wayne?

Seltzer: Look at that 3 1/8, a '49-'52 - yields 2.39.

Taylor: A one and a quarter note can't go wrong on any of the ones I've heard discussed. But you take a chance with the '54; but it isn't a bad gamble. In other words, '49-'54 - personally I think they are going to price them a little more towards the final - these particular bonds a little more towards the final maturity than they are towards the first optional date. But I think it is a gamble you can take. I'd a little prefer the '53 - '49-'53.

H.M.Jr: Archie?

Lochhead: As I said before, I think we have to take this together, the note and the bond together. I think if we were just putting out a bond, your observations (to Seltzer) might be a little more compelling; but with the note I think we could really get away with a bond at '49-'54.

H.M.Jr: You wouldn't shorten it to '48?

Lochhead: I'd leave it at '49; but if it's a question of shortening the call period, I'd rather shorten the call date one year than to leave a long call date and bring down the early maturity, the call date, on it. But, regardless of what you say, I think the market will price that high.

Haas: Well, I'll tell you; after all, we've got something.

Lochhead: You can say here that we are all making money together, but what they'll say is that the Government isn't making the money, the bond dealers are making it. You're going to be open to criticism if you make too much of a premium on that. It's

all right to say, "We're all making money." But what we are making isn't tangible. What will be tangible will be the premiums. If something jumps up to 1½, 1¾ premiums, you get an awful razzing. I don't think it's worth it.

H.M.Jr: Well, here's the thing. I just want to ask you a question from a straight - ah - scientific, or whatever you want to use, the word - economic standpoint. I think a '48-'53 is the thing, but here's the rub. If, by putting it '48, the bonds should, let's say, go to 103, it would make me look very silly. And then I'd come back, "But it doesn't cost the Government anything," but I'd have to be explaining why I let these fellows - and it would be a grand thing for a speech for that Congressman from North Dakota to make - ah -

Murphy: Lemke?

H.M.Jr: Lemke. "Look at Morgenthau letting these fellows make three points profit." I agree with you you shouldn't think of it, etc., but you've got it there just the same. When I point that out - I mean supposing this thing should go to 103. It might, mightn't it?

Haas: Not quite that.

H.M.Jr: It'll go to two points anyway.

Haas: I'd ask Burgess.

H.M.Jr: Right away they'll say, "Morgenthau is - he's handing it to them; he's sold out to the banks."

Murphy: I think there's great merit in the point, but I would still adhere to what I consider a theoretically correct view.

H.M.Jr: For you. But I can't be as the theorist. I've got to listen -

Murphy: My - I can see that my functions present one point of view, and I think that it is the most important point of view, but of course, naturally -

H.M.Jr: You can't explain - you can't explain to a public

why they get two points profit, even though it doesn't cost the Government.

Haas: You might try it on Randall Burgess and see what he would think.

H.M.Jr: No, I don't have to try it on him. I mean I remember once it went to 1½ and Jack Garner made a speech in the Cabinet that why did I give them a point and a half, and I had to explain to him. Well - I mean he was even complaining about a point and a half profit; it was too rich. And they were talking to him up on the Hill - I mean they assume - they get the headlines and my explanation goes to the classified columns. Huh?

Haas: That's right.

H.M.Jr: Am I right on that, Dan?

Bell: Yes, you're right.

H.M.Jr: While it doesn't cost the Government a penny and Murphy is right, still the other fellows make it. You know, Mrs. Klotz; you read the papers and they say a two point profit - it goes immediately to 102 and I'd be ridiculed.

Bell: I think it is surprising we haven't been criticized the last few years on 1 percent.

H.M.Jr: You remember Levy was in here yesterday. He wanted us to go to June 15, 1950, and make it a 3½ year bond. That's what he wanted.

Bell: It's December.

H.M.Jr: He said 3½.

Murphy: June 15, '50, to December 15, '53.

Bell: 17 year bond with a 3½ year call period.

H.M.Jr: No, I'm just - he was thinking in terms of 3½.

Bell: Call period.

H.M.Jr: Yes. I wrote it down. But that, again, is an oddity, you know.

Haas: I guess they're wondering why you were thinking it so close. But it's interesting.

H.M.Jr: He said June 15, 1950, to December 15, 1953.

Murphy: Well, the issue which you are considering is the same except that it is a six months earlier call period issue.

H.M.Jr: That's right. But he felt - he says a '50- - but yesterday he was willing to go - to make it 3½ years, and he didn't like the '49 so well.

Murphy: He must feel just the reverse, then, of the market as interpreted to us, because if he says '50 and is worried about '49, then he should justly be more worried about '48, and yet the primary objection which is advanced here to '48 is that it is too rich.

(Secretary goes out for few minutes and then returns)

H.M.Jr: What's that?

Taylor: Won't even bother you with it.

H.M.Jr: Harris, go out and bring these bonds up-to-date for me, will you please?

Well now, I see there is already a December 15, '49.

Bell: Small - 90 million.

Seltzer: Small issue.

H.M.Jr: What's that price?

Seltzer: 3 1/8.

H.M.Jr: What's that selling?

Seltzer: 2.39. We're figuring on a 2.40.

H.M.Jr: 2.39, you say, and we're figuring on 2.40?

Seltzer: Yes

H.M.Jr: Well, how do they get -

Seltzer: Well, that's why we were a little worried about it.

H.M.Jr: Well, how do they get the profit?

Seltzer: Well, they'd add 2.40, but it would command a premium of 1 4/32.

H.M.Jr: One and what?

Seltzer: 1 4/32.

H.M.Jr: 101 and - ?

Seltzer: Yes.

Harris: There hasn't been a sale in the last half hour.

H.M.Jr: 101?

Seltzer: Yes. It would have to sell on as good a basis as this bond which matures in '52 to get that premium.

H.M.Jr: As good a basis?

Seltzer: In other words, they've got to disregard a year.

H.M.Jr: Yes. What do you think, Dan?

Bell: Well, I think I'd go to the '49-'53. Be safe. Some doubt expressed. I think that the '49-'54 will go, but I think in view of the questions that have been raised and if you feel better satisfied if you cut off the year at the end, I'd do it.

H.M.Jr: Well George, have you got any doubts about a '49-'53?

Haas: No, I say on the '49-'53, Mr. Secretary, you will be sitting just as comfortable as you have been sitting.

H.M.Jr: Does your crowd agree with you on that?

Haas: I think so.

Seltzer: Well, I'd say you'd be cutting it closer than in the past.

Bell: You're adding about a year, and you've had some five year spreads in the past but not recently. You're adding a year on your maturity, on your spread.

H.M.Jr: That's why we've always had these three years at the last minute; they kind of tighten up on me.

Haas: Well, like most people, Mr. Secretary, they probably don't get down to real hard thinking until after they give their final answer. And the other one would go; I'm willing to bet money that the '49-'54 would go, with the note.

H.M.Jr: The which?

Haas: The '49-'54 would go, with the note, the way you have it. But you should realize that you are pricing tight, much tighter than you have been, and I think some day you will do that. But if you want to feel comfortable like you did before, you shouldn't do it; that's our point.

H.M.Jr: Of course, we've never figured as close as a one point bond. We've always had more than that gravy when we've figured.

Haas: On this one you've got 4/32 in addition to a point.

Bell: Between point and ten has been our range.

Harris: That's been on a longer bond, too, than this one.

H.M.Jr: Well, we've had more than that; haven't we had about a point and a half?

Bell: No, up to ten, I think. Last time we figured on an eight.

Lochhead: They generally went up after we announced it - the general bond level. The general market went up after the financing.

Haas: You've got this note sweeter than anyone I know of.

H.M.Jr: That's the trouble with it. The fact I - the note

is so sweet that - I mean if I could offer some of it for cash; but to offer a one and a quarter note for cash I think is too sweet.

Haas: That would bring up the question I raised before, when I didn't understand what you were going to do.

H.M.Jr: But this wouldn't -

Haas: No, this one would tend to help out a closely priced bond.

Murphy: Of course, you could offer it at par and a quarter. I don't think you'd like to do it.

Taylor: I think even if the - on the point premium, that's plenty, and that's kind of a market.

H.M.Jr: Not taking any chance at all. Supposing you put yourself over in England. Even though you are an American with your investments over in England, what the hell is there to worry - what's there to worry about what the King does?

Lochhead: If anything, there's going to be another flow of gold over this way, after the first shock.

H.M.Jr: I mean what's there to worry?

Bell: I don't see it.

Haas: The only worry is that this thing is not what it looks, just that he wants to marry this woman. It's a political situation.

H.M.Jr: Oh yes.

Bell: If the Cabinet resigns, I suppose that would be the real joke.

Haas: They want to keep the King as he has been for a number of years: nothing. I mean that's the real fight.

H.M.Jr: I do too.

Taylor: Remember that thing when he took that trip to the

coal mines, etc.?

H.M.Jr: To what?

Taylor: When he took the trip to the coal mines. That's just as much a part of this show as little Wally.

Bell: He was preparing for it, huh? He was getting popular support - the fact that he went there, was so liberal in his views.

Taylor: Well, he made statements at that time without consulting his Cabinet, you see, and there's quite a bit of that mixed up in it.

H.M.Jr: But even if -

Taylor: From the standpoint of the Cabinet there is; possibly not from his standpoint.

H.M.Jr: But even if they took 50 percent of this conversion in notes, that would - that's what helps the bonds.

Taylor: Helps the bonds.

H.M.Jr: How many of these notes anyway?

Bell: 787.

H.M.Jr: (On phone) Let me have Dr. Burgess again, please.

Has anybody got any doubts about a '49-'53 and a one and a quarter note? What? Anybody got any doubts? Huh? You still (to Seltzer)?

Seltzer: Well, on the figures, I'd say you'd be pricing it a little more closely than you have in the past. I think it would go just the same.

Lochhead: With a little shakedown we might be able to get some of these trust funds invested.

H.M.Jr: Hello? (Has another phone conversation with Burgess, timed in dictaphone record at 11:53 A.M., December 5, 1936). (Conversation follows on next page)

'49-'53. Well now, '50, '52, and '53 are all blank.

Murphy: Of course, that's for option periods. There's a

December 5, 1936.
11:53 a.m.

Operator: Dr. Burgess. Go ahead.

B: Hello.

H.M.Jr: Hello - Burgess?

B: Yes sir.

H.M.Jr: Now what's your more recent advice?

B: (Laughs) It hasn't changed a bit. Not for the last half hour.

H.M.Jr: What's that - 49 - ah.

B: 49-53.

H.M.Jr: Ah-ha. Well how do you feel there? I mean are you - are you confident about it at 49-53?

B: Yes, I feel pretty confident about it there. It's of course - of course they are putting out a lower rate. There's always a new experiment in that and a little longer call period but I feel certain that'll go.

H.M.Jr: You wouldn't - ah - split up the thing for cash?

B: What's that?

H.M.Jr: You would - Dan changed on the cash.

B: I don't think I would really.

H.M.Jr: Yes - ah - what about Levy's idea of making it June?

B: June 50 to 53?

H.M.Jr: June 15th - '50.

B: Yes.

H.M.Jr: to '53.

B: Ah - well I wouldn't do that. I think that this is a better program. I can think it's a little surer than that.

H.M.Jr: Which is surer?

B: This - the '49.

H.M.Jr: Surer?

B: Well, it's six months - six months earlier on the calldate, you see, although six months later on the maturity, and it makes one step toward increasing your - your spread on your - on - between your call date and your maturity. I think you want to kind of get the market used to that, don't you think so?

H.M.Jr: No, June 15th '50 to fifty - that's 3-1/2 years, isn't it?

B: Yes - ah - well he would have it - June '53 - yes, that's - well it's - it's - it's a year later....

H.M.Jr: Oh

B: .....on your call date.

H.M.Jr: I see.

B: And a year earlier on your maturity, you see?

H.M.Jr: Yes. The maturity would be the same.

B: Oh, the maturity would be December. I see.

H.M.Jr: Yes.

B: So it's just the same on the maturity.

H.M.Jr: Yes.

B: But you're being a little more conservative than that if you go 49-53....

H.M.Jr: I see.

B: You see, you're on December.

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

B: the call date, but you're making the call - lengthening the - the time between call and maturity.

H.M.Jr: Yes.

B: But you're making the call date a little bit earlier.

H.M.Jr: That's right.

B: Which is to your advantage, and it would also be considered to the advantage of the market. It isn't really, but they'd consider it so.

H.M.Jr: Now let me ask you this. Ah - what's the position of the brokers? - I didn't ask you that - the dealers?

B: Oh, they're all right. They're holding to low.

H.M.Jr: They're holding to low?

B: Yes

H.M.Jr: And I - they don't have many rights, do they?

B: No, not many, no.

H.M.Jr: And they're holding to low?

B: They're holding to low, yes.

H.M.Jr: Well, that's good. That wasn't so last time, was it?

B: Ah - they were a little higher, I think, last time.

H.M.Jr: How much they got? You know?

B: Just a second, I'll get the exact figures. (Aside: My security book, please).

H.M.Jr: (Aside: That's one house. That makes a difference. What? As of yesterday? Wait a minute, he'll have it. He'll get it.)

(Long pause)

B: They're 137.

H.M.Jr: A hundred and 37?

B: One hundred and 37 million.

H.M.Jr: Well, isn't that -

B: Now, of that, 23 in Treasury bills. 20 are notes up to one year; now, that includes the rights, you see. That's very small.

H.M.Jr: Yes

B: And 26 in one to five year notes. 60 are bonds, 6 are HOLC, and 2 are Federal Farm.

H.M.Jr: Yes

B: 137, total. Now, that's - that's down pretty low for them.

H.M.Jr: Yes. I thought they sometimes cut down to 20, 30 million.

B: Oh no.

H.M.Jr: No?

B: No, they haven't been down under a hundred million for a very long time, and they've been up to 160 or even 180 or 200.

H.M.Jr: Well, just another five minutes, as soon as the market closes, I'll call you back, because there hasn't - I understand there haven't been any sales for about half an hour.

B: Well, there have been very few sales. It's been very quiet.

H.M.Jr: Yes.

B: But I don't believe you'll get anything more by waiting for the close. It's a very quiet market.

H.M.Jr: Well, I'll just talk to our people once more and then I'll call you back.

B: All right.

H.M.Jr: O.K.

B: First rate.

maturity in '52. In fact, there are two maturities in '52.

H.M.Jr: But this comes nicely into your Social Security thing. That makes it '49; that's a 13-17 year bond.

What were those figures? You said in 17 years how much would come due?

Seltzer: The whole business; that is, all that are now callable would just about equal your requirements in '52.

H.M.Jr: So that works out all right.

Seltzer: Yes

H.M.Jr: I mean it gives you a chance to - you've got enough bonds to supply the Social Security if she sticks.

Seltzer: That's right.

Murphy: The only thing that could prevent that would be a large succession of budgetary surpluses in the 40's, which would use up your bonds. I have no opinion as to the probability of that.

H.M.Jr: Is anybody at all shaky about this thing, this '49-'53? Anybody? Wayne?

Taylor: (Nods negatively).

H.M.Jr: Harris?

Harris: No indeed. If you'd go '49-'54 - well, I don't know - I think it will go. I think '49-'53 is a little better.

Taylor: Taking a little bit more of a chance if you go to '54 than this way.

H.M.Jr: But, the way George put it, I'm taking no more risk on this than on the others, - about the usual.

Haas: I think you are about your usual pricing.

H.M.Jr: O.K., Dan.

December 5, 1936

SECRET

For the President--

In order to place the Treasury in funds to meet the December 15 maturities of about $350,000,000 of Treasury notes and $400,000,000 of Treasury bills, and the February 15 maturity of about $429,000,000 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 13-17-year two and one-half percent Treasury bonds, and a series of 5-year one and one-quarter percent Treasury notes.

The bonds will be offered for cash to the amount of $700,000,000, or thereabouts, and will also be open for the exchange of the two series of maturing notes. The new notes will be open only for the exchange of the two series of maturing notes.

I trust that the proposed issues will meet with your approval. It is my intention to make public announcement of the offering on Monday, December 7. Will you kindly cable your approval.

MORGENTHAU

NAVAL MESSAGE
(NAVY DEPARTMENT)

From THE PRESIDENT

Released by X-NY-W (Signature)

Date 6 DEC 1936

NITE to

ROUTINE to

PRIORITY to X

ACTION — To RADIO WASHINGTON

INFORMATION — To

Write ACK, after addresses requiring acknowledgment

(DO NOT WRITE IN THIS SPACE)

TEXT

ØØØ6 INFORM THE SECRETARY OF THE TREASURY QUOTE APPROVE YOUR PLAN CONTAINED IN BLACK ONE NINE SIX CONFIDENT GREAT SUCCESS 142Ø

SECRET

NOTE: BLACK ONE NINE SIX IS THE NUMBER OF THE MESSAGE SENT FROM RADIO WASHINGTON TO THE PRESIDENT

M

Make original only. Deliver to Communication Watch Officer in person. (See Art. 76 (4), Navy Regulations.)

December 7, 1936
9:40 A.M.

Burgess: Hello, sir.

H.M.Jr: Yes, Burgess.

B: Looks better still.

H.M.Jr: How's she going?

B: They're writing their quotas at 101 4-6 to 4-7.

H.M.Jr: 101 4-

B: 4-6

H.M.Jr: 4 - what does that mean? - 4 -

B: 4/32.

H.M.Jr: 4/32.

B: That's the bid, and 7/32 asked.

H.M,Jr: Asked, how much?

B: 7

H.M.Jr: 7 - yes.

B: Now, they - there were some trades made at 6, I understand, this morning.

H.M.Jr: I see. Now, that's the rights to the - to him.

B: That's the maturing issue.

H.M.Jr: Yes. Now, they haven't differentiated yet between the new bond and the new note?

B: No. They think the bond is just a shade better than the note in the price.

H.M.Jr: I see.

B: But they'll go pretty much together.

H.M.Jr: Well, I haven't gotten - I think we figured it would be 101 and 4? 101, 4 - Bell's standing next to me.

B: Yes, ah-ha.

H.M.Jr: Well, that's just about what we figured, isn't it?

B: Just about right, yes.

H.M.Jr: But it's a little bit better?

B: Now, the whole bond market is a little bit higher. It opened a little bit off and is now a little bit higher than it was on Saturday's closing.

H.M.Jr: Yes

B: About one or two thirty-seconds better.

H.M.Jr: I see. Well -

B: So it looks very nice and comfortable.

H.M.Jr: All right. Would you mind calling me again at ten-thirty?

B: All right, first rate.

H.M.Jr: Thank you.

* * * * * * *

10:35 A.M.

Operator: - calling.

H.M.Jr: Thank you.

Operator: Go ahead.

Burgess: Hello.

H.M.Jr: Hello, Burgess.

B: Well, there's no great change. They're a little stronger, if anything.

H.M.Jr: They are?

B: One of the dealers is bidding 6.

H.M.Jr: One of the dealers is bidding -

B: 6, for the rights - 101, 6.

H.M.Jr: 6 - that's pretty good, isn't it?

B: Of course fine. Just about right. I wouldn't want it to go much higher. (Laughs)

H.M.Jr: You wouldn't?

B: Look too good.

H.M.Jr: Ah-ha. Now - well, I just want you to think about this. I'm going to have a press conference at five.

B: Yes

H.M.Jr: So I want returns by then; and then, also thinking about announcing tonight that we'll close Wednesday night on the conversions.

B: Yes

H.M.Jr: See?

B: I think that's about right.

H.M.Jr: Think it over, will you?

B: Yes, yes.

H.M.Jr: Just a second - see whether - just a minute.

B: Yes

H.M.Jr: No. Baldwin has been delayed in getting there

B: What's that?

H.M.Jr: Baldwin hasn't gotten to the Parliament yet.

B: Oh, I see, yes.

H.M.Jr: This is just a ticker. It says: "Crowds outside

Commons cheered Baldwin as he arrived. The tension which prevailed for days was reflected" - and so forth.

B: Yes.

H.M.Jr: Ah - they're bidding 101, 6?

B: Well, one of the dealers is. Most of them are bidding 3 and 4.

H.M.Jr: Ah-ha. Any criticisms about my press interview?

B: Not a bit, no.

H.M.Jr: Ah-ha.

B: Haven't heard a word of criticism.

H.M.Jr: Ah - I -

B: They're all sore because they can't get more themselves, that's all.

H.M.Jr: What's that?

B: There's some of them are peeved because they can't get more of them, because they won't let them subscribe for more.

H.M.Jr: Let me ask you this. Any comments on - from any of the people who you sent down to see me?

B: No, I haven't heard from - well, I've heard from - from Levy and Mills, of course, and they both think it's just right.

H.M.Jr: Yes; how about some of the new fellows that were down? What - did they say anything about the kind of an impression they had down here?

B: Ah -

H.M.Jr: Have you seen Colt?

B: I haven't talked to Colt, no.

H.M.Jr: Ah-ha.

B: But - now let's see, I talked to somebody. Ah -

H.M.Jr: Well -

B: Rentschler, of course, I've talked to since you saw him.

H.M.Jr: All right. I - we'll watch it now. You're -

B: Anything special, I'll call you.

H.M.Jr: Righto.

B: First rate.

H.M.Jr: Thank you.

December 7, 1936.
1:46 p.m.

H.M.Jr: Hello.

Burgess: Hello sir.

H.M.Jr: Yes Burgess.

B: Well we've - it's going very well. We've got - we've got enough subscriptions in now to count a little bit. We've got 816 million at 1.38 of the bonds.

H.M.Jr: How much?

B: 816 million.

H.M.Jr: Well then I can stop worrying.

B: You can stop worrying - it's all sold now.

H.M.Jr: Ah-ha. Well that's .....

B: But that's just counting the big ones. I didn't bother any with chicken feed.

H.M.Jr: Ah -

B: The market's about the same as it was - not much change.

H.M.Jr: Yes, well it will roll in won't it from now on?

B: Oh yes.

H.M.Jr: What?

B: Oh they'll begin to accumulate now.

H.M.Jr: Yes.

B: But everything's very orderly and under control.

H.M.Jr: It's particularly orderly, isn't it?

B: It is unusually so, yes.

H.M.Jr: And what surprises me is to see all the other bonds rise a little bit too.

B: Yes that's pretty good too, isn't it.

H.M.Jr: I mean those 2-3/4's.

B: Yes.

H.M.Jr: They're all - the '56-'59 now for instance - they're up.

B: Yes - yes. And they like the offering - everybody's pleased with it.

H.M.Jr: Yes. No criticisms?

B: Not a bit and I haven't heard a word.

H.M.Jr: Well it's music to my ears.

B: And mine too.

H.M.Jr: I'll have to find something new to worry about.

B: (Laughs) That's right.

H.M.Jr: O.K.

B: First rate.

H.M.Jr: I'll call you a little later.

B: Very good.

H.M.Jr: Thank you.

Fin

December 7, 1936.
1:46 p.m.

H.M.Jr: Hello.

Burgess: Hello sir.

H.M.Jr: Yes Burgess.

H.M.Jr: Well we've - it's going very well. We've got - we've got enough subscriptions in now to count a little bit. We've got 816 million at 1.38 of the bonds.

H.M.Jr: How much?

B: 816 million.

H.M.Jr: Well then I can stop worrying.

B: You can stop worrying - it's all sold now.

H.M.Jr: Ah-ha. Well that's .....

B: But that's just counting the big ones. I didn't bother any with chicken feed.

H.M.Jr: Ah -

B: The market's about the same as it was - not much change.

H.M.Jr: Yes, well it will roll in won't it from now on?

B: Oh yes.

H.M.Jr: What?

B: Oh they'll begin to accumulate now.

H.M.Jr: Yes.

B: But everything's very orderly and under control.

H.M.Jr: It's particularly orderly, isn't it?

B: It is unusually so, yes.

H.M.Jr: And what surprises me is to see all the other bonds rise a little bit too.

B: Yes that's pretty good too, isn't it.

H.M.Jr: I mean those 2-3/4's.

B: Yes.

H.M.Jr: There all - the '56-'59 now for instance - they're up.

B: Yes - yes. And they like the offering - everybody's pleased with it.

H.M.Jr: Yes. No criticisms?

B: Not a bit and I haven't heard a word.

H.M.Jr: Well it's music to my ears.

B: And mine too.

H.M.Jr: I'll have to find something new to worry about.

B: (Laughs) That's right.

H.M.Jr: O.K.

B: First rate.

H.M.Jr: I'll call you a little later.

B: Very good.

H.M.Jr: Thank you.

December 7, 1936.
3:17 p.m.

H.M.Jr: Hello.

Walter Stewart: Hello Mr. Secretary.

H.M.Jr: How are you?

S: Pretty good.

H.M.Jr: Is this Walter Stewart?

S: That's right.

H.M.Jr: How would you like to come down and see me and discuss a rather confidential matter?

S: I could come down I think almost anytime to suit you.

H.M.Jr: Would this - well I tell you - is tomorrow afternoon too short notice?

S: I'll tell you - I've got one appointment tomorrow night which it would be awfully difficult for me to - ah - .....

H.M.Jr: To break.

S: ....To break because it's a Trustee meeting of a college.

H.M.Jr: Well now I wouldn't want you -

S: I could do it but if you could think of some other time without - that would be convenient to yourself....

H.M.Jr: Yes.

S: .....it would suit me better.

H.M.Jr: Ah -

S: Wednesday?

H.M.Jr: Wednesday? Let me think. Would you - I don't know whether you like to travel on the midnight or get here in the morning.

S: Any way - it doesn't matter.

H.M.Jr: What's that?

S: I'll come either way.

H.M.Jr: Well - ah....

S: If I came in on the night train it might be a good thing.

H.M.Jr: If you came down Tuesday night.

S: Yes I could do that.

H.M.Jr: And then came here in the morning.

S: Yes.

H.M.Jr: Let me ask you a question. Do you hit it off all right with Professor Sprague?

S: Oh yes.

H.M.Jr: You do?

S: Old buddy of mine.

H.M.Jr: Because I've asked him to come down also.

S: Right.

H.M.Jr: Now he's going to be here Wednesday morning at 9:30.

S: Yes.

H.M.Jr: And I've - I've got something that I'd like you both to examine with a magnifying glass.

S: All right.

H.M.Jr: See?

S: All right.

H.M.Jr: And I've got - I mean I'm just going to tell you in confidence knowing I've got full confidence that you will consider it as such.

S: Right, I will.

H.M.Jr: Would you care to bring one of your men with you by the name of Warren?

S: Yes. He's a mighty good man - I'd like you to know him.

H.M.Jr: Well I read his speech and article in the Atlas and if you felt that you could bring him down I think it would be fine.

S: All right, I'll do that Mr. Secretary.

H.M.Jr: Well then it's - it's - ah shall we say - ah - I was just trying to think about - 9:30 Wednesday morning?

S: 9:30 is all right for me, yes.

H.M.Jr: Fine.

S: Fine, I'll be at your office at 9:30.

H.M.Jr: Thank you very much.

S: And I'll bring Warren along.

H.M.Jr: Thank you.

S: All right, sir - goodbye.

RB

GRAY

Paris

Dated December 7,1936

Rec'd 3:55 p. m.

Secretary of State

Washington.

1209, December 7, 6 p. m.

FROM COCHRAN.

Paris exchange market very (*) with no important fluctuations or operations in any currency. Bourse practically unchanged. Blum victory of 350 to 171 with Communists abstaining on vote of confidence on Government's foreign policy Saturday has thus had no effect so far on the market.

Press reports that League Financial Committee now sitting at Geneva will issue a report admitting that real benefits have accrued from the Tripartite Currency Agreement of September 25 but stating that the measure has not yet been followed by that degree of relaxation of import quotas and exchange restrictions which it was hoped would generally follow. Report will follow question of international indebtedness and emphasize necessity for extending credits to certain countries in order to revive their purchasing power.

FINANCIAL

RB

-2-#1209, December 7, 6 p. m.
from Paris

FINANCIAL TIMES correspondent reports from Amsterdam interview in which Prime Minister Colijn stated that after failure of World Economic Conference of 1933 he did not believe any longer in the success of world conferences. Neither was he under any illusion regarding a general stabilization move. The Netherlands had adhered to the Tripartite Agreement because this may form the beginning of international cooperation and of de facto stabilization and offered technical advantages.

AGENCE ECONOMIQUE reports from Switzerland speech in which Minister of Finance Meyer said devaluation had led to important flow of capital to his country. He considers the Tripartite Agreement to which Switzerland has adhered the first step toward stabilization and hopes it may be followed by relaxation of quotas. He refers to the words of Chamberlain that the final end is not manipulated currencies but the return to the gold standard.

European financial press gives full details of American Treasury borrowing for 15th.

BULLITT

CSB

~~36~~

December 7, 1936
8:30 P.M.

Present: Mrs. Klotz
Mr. Bell
Dr. Viner
Mr. Upham
Mr. Opper
Mr. Lochhead
Mr. Oliphant
Mr. Haas
Mr. Seltzer
Mr. White
Mr. Taylor
Mr. Gaston

H.M.Jr: Who's playing teacher?

Oliphant: Dr. Haas.

H.M.Jr: Go ahead, Georgie, read it so we can hear it.

Haas: It's one page; I think you better take a look (hands Secretary draft entitled "Sterilizing Future Acquisitions of Gold").

H.M.Jr: Well, before we start, is everybody in agreement?

Bell: Oh, substantially.

H.M.Jr: All in agreement?

Bell: Substantially.

H.M.Jr: I've heard that "substantial" stuff before.

Oliphant: In principle.

Taylor: Up to a certain point.

Haas: There's no agent and principal here.

Viner: We agreed - the instructions were to raise no question of principle.

H.M.Jr: All right.

"Sterilizing Future Acquisitions of Gold.

"The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

A. The Fund would buy all imported gold.

B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.

C. The Treasury would obtain such funds by increasing the weekly amount of Treasury bills to be sold by an amount sufficient to equal the gold imported during the preceding week.

"A more detailed statement of the operation of this plan is as follows:

(a) X, in New York, imports $50,000,000 worth of gold.
(b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
(c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays X for gold by issuing its cashier's check.
(d) X deposits check in its member bank.
(e) Member bank deposits check with Federal Reserve Bank, receiving credit in its reserve account, thus increasing excess reserves.
(f) Amount of Federal Reserve Bank's check is charged to account of Stabilization Fund (Secretary's special account).
(g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal Reserve Bank.
(h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
(i) Treasurer's account with Federal Reserve Bank will be replenished by sale of $50,000,000 Treasury bills, equivalent to transfer.
(j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal Reserve Bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

"Note 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than $50,000,000 in bills could be sold.

"Any purchase of gold increases bank deposits. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to Federal Reserve Banks to the extent of such deposits."

Let me go back to A, B, C.

"A. The Fund would buy all imported gold." That's the way it is now, isn't it?

Lochhead: The Fund? No, the Treasury buys it. I mean if the Guaranty Trust brings in five million dollars worth of gold, it goes right to the Treasury, not to the Stabilization.

H.M.Jr: Well, how do we - the bank -

Lochhead: But under this plan it will be purchased for the account of the Stabilization Fund instead of the account of the Treasury.

H.M.Jr: But the bank wouldn't know that?

Lochhead: The Guaranty wouldn't know that.

H.M.Jr: I mean that. But after the Guaranty Trust delivers it to the assay office it is a question of who pays for it.

Lochhead: That's right.

H.M.Jr: Now, who pays for it?

Lochhead: The Treasury.

H.M.Jr: And you propose to have the Stabilization Fund pay for it?

Lochhead: That's right.

H.M.Jr: Is there any argument about that?

"B. To pay for this gold it would use funds obtained from the general fund of the Treasury in exchange for its gold transferred to the Treasury." Any argument about that?

"C. The Treasury would obtain such funds by increasing the weekly amount of Treasury bills to be sold by an amount sufficient to equal the gold imported during the preceding week."

I don't like that method. I mean what I said the other night; for instance, if we - let's say we started this thing on the first of January. Then what I would do is, I'd say, "Now look here, Dan, how much gold came in the last three months?" He says, "Well, 250 million dollars."

And we talk around and I say, "Well, do you think any more than that will come in in the next three months?" "No, that's the top figure."

Then I'd want to arrange my financing - let's say we were going to do it on the 15th of March. I'd like to borrow on a quarterly basis rather than on a bill basis. I mean enough money - to have enough money on hand - to estimate what my next three months' requirements would be. See? Dan?

I mean that's something which isn't very important; we could work it out. But the only thing that I think is important in this is that as gold came in dollar for dollar - I should think we'd pay out of the General Fund dollar for dollar as gold came in. Now, it would be up to me and the rest of us to figure how we'd raise that money. I wouldn't want to - let's say if we got 50 million dollars, I wouldn't want to borrow just that. That would make my bill financing up and down and very irregular, and upset things. I'd rather borrow a three months' estimate of what I'm going to need, borrow 250 million dollars, and if I don't use 125 million of it, that's all right.

Viner: Would you impound the proceeds at once? I mean transfer them to the Federal Reserve Bank?

H.M.Jr: I keep it in the General Fund.

Viner: Yes, but it's still in the General Fund whether you keep it in the Federal Reserve Bank or a member bank.

H.M.Jr: Well, that could be decided after consulting them - where it would suit their convenience; I mean where it would suit their convenience. I think that whole question of where we are going to keep our money on deposit, anyway, is a matter which we should consult on with them from week to week; see whether their deposits suit their requirements.

White: Consult with whom?

H.M.Jr: With the Federal Reserve Board.

But I don't want to get bogged down. I mean I think it's a question whether we buy weekly - I wouldn't have to go out and - let's say we are only buying 50 million; we suddenly get 50 million, then borrow 50 million for one week. It isn't orderly. I'd rather keep it on a quarterly basis and then try to adjust on it. The worst could happen is we'd over-borrow.

Viner: Then you'd have to use transfers of funds much more under this method, because supposing that the inflow took place on - the first week of January there was a big inflow; on this basis, if you didn't borrow until April first -

H.M.Jr: No, I'd want to borrow in advance.

Viner: Well, it would -

H.M.Jr: I mean supposing today, for instance - supposing this was working. Well - and in our borrowing today we would figure, "Well, there's going to be 250 million dollars worth of gold coming in in the next three months. We'll take that much extra money." Or we'd figure it in our bills. Now, we've got 300 million bills going along now; they stop the second of January. Then the question comes - we might run them - we'd run them 400. I wouldn't want to buy 50 million, then stop for ten days, then go in and buy 50 million more and then stop for a month. I mean it would - in the first place, it

serves notice all the time, keeps them upset all the time.

Viner: If you had the general rule that you were neutralizing gold imports, it wouldn't upset them; they'd know what you were doing.

Lochhead: And then, of course, if you are borrowing in advance you possibly are paying for the use of money you don't need.

H.M.Jr: Well, it's so unimportant in the relation to the whole thing. After the thing gets going - just take this 300 million which stops - what is it, the second of January?

Bell: The 6th or 13th, I believe - the 13th.

H.M.Jr: Well, if we started this thing, we'd decide to run it another two weeks; it would fit in with our bill borrowing. The only point, I wouldn't want to borrow one week 50 million, then skip three weeks and borrow 100 million, and then skip two weeks and borrow some more.

Bell: Of course, this is flexible enough to fit right into that scheme. You might consider that while we were borrowing 50 million dollars additional, 25 million of it was for the gold and 25 million for your General Fund. I mean it is flexible enough to fit in that way.

H.M.Jr: But you see what I mean?

Bell: Oh yes.

H.M.Jr: We wouldn't want to, for instance, have 50 million, then go two weeks and then go 100 million, then go three weeks, then drop back to 50 million.

Bell: As a matter of fact, it is flexible enough so that you could call money from the depositaries one week and next week add it to your bills.

H.M.Jr: There's a lot of ways you can do it, aren't there?

Bell: Yes

H.M.Jr: I consider it very unimportant.

Taylor: I think it is important that you should use bills rather than other types of financing, don't you (to Bell)?

Bell: From the standpoint of the interest, yes, because that is much higher than bills and you are locking up your funds.

H.M.Jr: But I mean that's something which I think is rather unimportant. It's the only thing I put my finger on. Well, what's the matter with this thing outside of that?

Viner: Well, this whole sequence would have to be changed, on that basis; and if you were going to do the thing laid down here, you would operate, say, on quarterly issues of bills, but you'd have to accomplish this purpose by handling the management of the transfer differently. You'd have to take the funds out of the member banks only as the gold -

H.M.Jr: If I didn't want to make it irregular borrowing, we'd just have to rearrange it and -

Viner: You'd be combining. To get the same results substantially you'd have to combine the financing in the between periods and the introduction of correspondence of your operations with the gold flows by manipulating your transfers of funds from the member banks of the Federal Reserve System.

H.M.Jr: That could be done. Huh?

Viner: Yes, certainly.

H.M.Jr: It's unimportant as long as it could be done.

Viner: Oh yes.

H.M.Jr: Dan? Huh?

Bell: Yes, it's flexible enough to do that.

H.M.Jr: Yes

Bell: This whole scheme here is on the basis of

Treasury bills, and all you need to do is say, "Inject here the withdrawal of funds from depositaries," in connection with that or larger scale financing on quarterly dates, which does pile up a great deal of money.

H.M.Jr: I didn't mean that. I simply meant that if we are now in a series of 300 million dollars worth of bills coming due on the 16th of March - well, if we are in the gold business, I'd continue that series another two weeks and make it 400 million for the gold, and I might start up a new series for June 15 a little bit earlier. All I mean is if I'm on a series of bills I don't want to break them off and start up again a little later; I'd rather run them a little longer. Huh?

Bell: Oh yes, that's all right; that will work.

Oliphant: Just strike the word "weekly" out of "C" and it's all right, isn't it?

Taylor: "Weekly" isn't important.

H.M.Jr: No, I don't think so. Well, I don't want to get on that. What else? I mean why isn't this the answer to the whole thing - I mean leaving out this one question that I raised. Huh?

Lochhead: I think it is.

Oliphant: I think it is.

H.M.Jr: Cross out the word "weekly" (changes his copy of draft). "The Treasury would obtain such funds by increasing the amount of Treasury bills to be sold by an amount sufficient - " You'd have to change that sentence.

Viner: There would have to be changes down below explaining that - that this transfer of accounts would be timed differently under your method and under this method.

H.M.Jr: Well, that could be changed. That isn't insurmountable, is it?

Viner: No.

H.M.Jr: I mean it makes much better financing. Don't you see what I mean, Jake?

Viner: Oh, it's all right.

H.M.Jr: George, you see that?

Haas: Oh sure. The discussion in there was that on this point - was that you are paying interest - you are paying interest on money you are not using; but the point of orderly financing, I think, is more important than that.

H.M.Jr: Much more important than that.

Oliphant: Of course the point may be that the orderly financing - the orderly manipulation of bills may result in a net lower interest cost than a disorderly handling of your bill market.

H.M.Jr: No question of it. You shoot out 50 million dollars at odd times and you're going to pay for it. You're going to pay for it.

Oliphant: I think your point is probably well taken.

Haas: And that's another reason why you wanted to put your other financing on quarterly dates, because it was orderly rather than otherwise.

H.M.Jr: Well now, let me just say this. You fellows can fix that up for me a little bit tomorrow. This is what I'd like to do. Eccles comes over every Tuesday. I'd like to send word to him to bring Goldenweiser and - what's that other fellow's name?

Haas: Currie?

H.M.Jr: No

Taylor: Gardner?

H.M.Jr: Well, whoever they want, at 12 o'clock; and I'd like to present this to them tomorrow and then let them take it home and let them have it for a day or two. See?

Seltzer: Of course, it is rather difficult to estimate for a quarter in advance what your imports are going to be.

H.M.Jr: Don't let that sidetrack you, Seltzer. I'll adjust myself; it's unimportant. I can - I just meant -

Viner: You don't want to be tied to the weekly schedule.

H.M.Jr: That's all. I mean if I'm running a series of bills like I am now, a hundred million dollars a week, I want to complete that series of 100 million a week until I have enough, then start a new one. But I don't want to have it jumping up and down at odd times, because they won't take it.

Seltzer: You have another alternative which you might consider. It is a little more elaborate. If you were to undertake a large quarterly financing, say half a billion dollars, for this purpose, and you had the proceeds transferred to the Federal Reserve Bank, then your Stabilization Fund could purchase an equivalent amount of government securities in the market and thereafter your Fund could peddle out these securities to offset gold imports, and in that way you'd have a much more flexible adjustment for absorbing these new reserves.

H.M.Jr: Well, I'm not going to get into too many details. I think this thing, with the exception of the one change there - if that can be written up, I think this thing is about 90 percent right, see?

Now, what I - the only thing when Williams came in - I wanted to talk to him. The only thing he said to me when he first came in was that it was fine. The Stabilization Fund should do it rather than the General Fund, but he thought we oughtn't to do anything until the Federal Reserve System made up their mind what they were going to do about excess reserves. Then I spoke to him and said, "No, I think you're wrong and I'll tell you why. Between now and the first of May there might perfectly possibly be 500 million dollars worth of gold come in, and then you people raise this thing and everybody

will throw up their hands and say, 'Oh, for Heaven's sakes, this mechanism doesn't work. Just as fast as we raise the requirements, look at the gold that comes in.'" And I said, "Furthermore, I am anxious to get gold into this fund so in case there should be a change next three to six months we'll have gold which we could in turn feed out in case the gold left." And I said, "I think it is much more important to give - to show that this mechanism will separate the gold from the excess reserves, and then if they do decide to use the excess reserves, why, they know it's going to work, and they aren't going to have to do it over and over again.

So he says, "I withdraw my objection. I agree with you." He says, "I agree with you. I don't think that after that - I don't think that you should wait."

Now, I haven't said - I don't know, I may have said this to some of you privately - but I'd like to do this thing even before the President came back, because we've got 170 odd million dollars in this fund. I'd like to get it out. I don't like all the gold we got in England. I'd like to bring it back. It makes me nervous. They might have an air raid over there any time and I think I'm subject to criticism. I'd like to bring back 75 million dollars of gold. I don't want to keep over 50 million over there. And I can't bring it back if I'm going to pile this thing up. So what I'd like to do is, I'd like to show it to Eccles and his crowd tomorrow and give them a chance, and if we can sell it to them - and then I got two gentlemen coming down Wednesday I'm going to show it to. You fellows never could guess who they are. Some of you could. Have I told? Well, Professor Sprague and Walter Stewart will be here Wednesday and I'm going to show it to those two gentlemen and let them take a look at it. Certainly they know this field. Professor Sprague told me where he wanted to stay and if I got a room he'd come down. He says, "You fix me up at the Metropolitan Club with a room, will you?" I said, "Pardon me?" He said, "Fix me up; that's where I stay when I come to Washington." I said, "Aye, aye, sir."

Oliphant: Well, I think from our standpoint it's all right, it's ready to show to Eccles tomorrow.

H.M.Jr: No I'm serious about this thing; I'd like to go ahead now.

Opper: You want to be certain, Mr. Secretary, that your authorizations from the President are broad enough.

H.M.Jr: That's your worry. You and Oliphant have got to worry about that. I'm going right ahead. You fellows have got to talk fast and think fast. I told Mrs. Klotz this thing reminds me in a small way of what the President was up against in 1933 when he wanted to do something about gold. I said in a small way because no one was trying to block here. I mean we're fussing around with this thing, and to read something like this, written September 23, we say "Why didn't we do this thing long ago?" I'm going ahead; I'm serving all of you notice and those of you who think I'm making a mistake have got a chance to say so tonight.

Bell: You know, if you want to start a little early on bringing your gold back, you don't have to wait for this. We can do it, but it will operate more or less quietly.

H.M.Jr: How, Dan?

Bell: We'll put it into the General Fund and lock it up for a while.

Haas: In other words, Dan's saying, "Just go ahead." (Laughter)

H.M.Jr: I don't - well, I can't - I don't want to do it without talking to the President. I think it is just as easy to sell him a whole idea as part of the thing. Don't you think so?

Bell: Well, this would be part of your regular Stabilization Fund operations. When you bring the gold back, I would take it into the General Fund and give you a credit in the Stabilization Fund in New York, and the gold would lay in the General Fund until they needed it.

H.M.Jr: If I brought back 50 million dollars of gold from London, would it show up right away?

Bell: Yes, sir.

H.M.Jr: Then that scares the people, but if they know about it, know there's nothing to worry about, it isn't going to frighten them.

Bell: As a matter of fact, I think this group advocates showing it publicly. That's all right.

Oliphant: If the mechanism is set up. But if we -

H.M.Jr: If we do this thing at all, I want to give a very careful explanation of how this thing works, so the people understand. I want to give a very careful explanation so everybody knows, and then when they see 50 to 100 million dollars coming, nobody's going to get excited. Huh?

Viner: I think that's right. But if you give the explanation, you are committed to the policy, at least for a time; you've got to follow it pretty consistently.

H.M.Jr: Well, I think we should. Look, the thing that interests me as much in this as the excess reserves is the quieting factor it will be on people. We say, "Now listen, you don't have to worry when 500 million dollars or a billion dollars goes out, because it isn't going to contract." I think that is even more important - the fear of deflation, contraction - than is the fear of this excess reserves thing. To me - I mean I don't get very much - I don't permit myself - to me I think that this is as important for inside the United States as the tripartite thing was outside. I think it is just as important; I think it is just as momentous and just as far-reaching.

Viner: What about domestic gold?

H.M.Jr: Well, I haven't had time to think about it.

Haas: Same thing.

Viner: Exactly the same thing.

Bell: But you can handle it under this scheme, same way.

H.M.Jr: But I think it is just as far-reaching as the other thing. I think it is more important.

Aren't you getting "teentsy-weentsy" enthusiastic about this, Jake?

Viner: I said it's fine. It's all right, it's a desirable mechanism. But, with the amount of excess reserves we have now, it's top dressing.

H.M.Jr: It's top what?

Viner: It's top dressing.

H.M.Jr: Yes but how about if you didn't have this and the thing moved out tomorrow?

Viner: There are several alternative control mechanisms. If you use this, it means less needed of the use of the others. The others might conceivably get exhausted and then you might have to fall back on this; but if you do this now, you lessen their job.

H.M.Jr: Well, how about this idea of Williams? I mean I'd like to do it between now and the first of January. All right?

Viner: It's all right. I'd say, for formal reasons, I'd like an O.K. from the Federal Reserve.

H.M.Jr: Well, I think I convinced Williams on the order. I don't know whether that was done before or not. But he thought that was very important.

Viner: The order?

H.M.Jr: But not after he left this room.

Viner: I don't see any importance to it.

Haas: I talked to him after he left you. He said you changed his mind.

H.M.Jr: As a matter of fact, I think the order is important. I think it is terribly important that we do our move first.

Viner: I think it is fine if the public gets the truth that the Treasury, as well as the Federal Reserve, are willing to take any steps necessary to prevent dangerous expansion. That's the important thing. Whether we act a week or a day after or before they act -

H.M.Jr: But I'd like to see us make this move between now and the first of January, and then, with this thing removed, let the Federal Reserve think for a week - do they want to do this with the threat of gold removed, see? Huh? And I'd like to sit down with my crowd, if they have asked my advice, and consider whether, with the threat of gold removed, they want to increase their excess reserves. Huh?

Well now, listen. At 12 o'clock tomorrow I can get these people over here. Can this thing be fixed up so it looks - what are you going to do at 11:30 (to Bell)?

Bell: Oh, we were going to get ready for the meeting that takes place at 9:50.

H.M.Jr: Now we are going to do that walking down.

Bell: I haven't looked at it today. Sorry. Aren't we still going to have our meeting at three o'clock tomorrow afternoon?

H.M.Jr: No, that's off. Didn't McIntyre call you?

Bell: Yes, but I thought that was preliminary.

H.M.Jr: He said it wouldn't take but a very few minutes.

Bell: Well then, it won't take any figures. I don't have any. Well, the boys have some, but I haven't been near the Budget Bureau.

H.M.Jr: Well, let's see, anyway - and could you (to Mrs. Klotz) see whether Eccles can come over and tell

him to bring whatever economist he wants to bring with him. We want to talk about gold.

Klotz: 12 o'clock?

H.M.Jr: 12 o'clock.

Oliphant: Is your thought to discuss this at 12 tomorrow or give it to them and let them read it and then discuss it?

H.M.Jr: No, I'd like to have someone explain the technical things and I'd like to make not to exceed a three minute statement, and let them ask questions and let them take it home and as soon as they are ready come back. See? I'd like somebody - I mean Goldenweiser will want to ask a lot of questions, etc. After all, it's taken us two or three weeks to get ready; you can't expect them to get it in an hour. Huh? Who will present that? George, you?

Haas: If you want me to.

H.M.Jr: All right. Now, everybody? I can't get a fight out of anybody.

Oliphant: Well, we've fought all day and the fight's all out.

Lochhead: Can't get me to fight, because I said this didn't have to be done. I get the quarter of one percent on all the gold that comes in.

H.M.Jr: (Laughing) How much is it going to mean? How much interest did you get on your balance in London today?

Lochhead: (Laughing) At least $125.

H.M.Jr: It would pay us lending money. What do you get - 7/16?

Lochhead: 7/16.

Bell: Of course, Archie, I'd be kicking, but I'm only looking at two funds in one.

Lochhead: It's where you can't spend it right away.

Bell: I'll eventually get that profit.

Viner: When it comes to loss.

Gaston: We're going to make it a revolving fund, make it available for any expenses.

H.M.Jr: I mean isn't anybody else - ?

Oliphant: I'll tell you what; the truth is we're all paralyzed at our amazement over our agreement.

Klotz: (Laughing) Paralyzed over our amazement at our agreement!

Taylor: Got one piece of housekeeping that Dan has to explain there, and that is how it will show in the daily statement.

Viner: He'll have to change it.

Taylor: What?

Viner: He'll have to change it, not materially.

Haas: That's a part of the publicity.

Taylor: But it's quite important.

Bell: (Laughing) Do you mean "double bookkeeping"?

H.M.Jr: Well, it will show up.

Viner: Hoover would like it this way.

Bell: (Illustrating with chart) On a daily statement we have a gold account which shows all of our monetary stock of gold. In discussing this problem today, it was thought that maybe it would be better to show the gold account in two sections. One would be - the first one would be Gold Reserve, and that would only show the gold that we hold against the gold certificates outstanding, the old form, which haven't yet been returned to the Treasury, and the new form, all of which are held by the Federal Reserve Banks. And then the Gold Certificate Fund, which is held by the Federal

Reserve Board, the redemption fund for Federal Reserve notes, and reserve for United States notes, totaling 9 billion and 73 million. Then we'd have an account called Other Gold, just using that for the want of a better title at the moment. Liabilities in that would be the Stabilization Fund of a billion, 8. Then there would be gold in the General Fund, broken down to Inactive, which would be this sterilized gold, and the Balance of Increment resulting from the reduction of the weight of the gold dollar. And then the gold in the working balance, which would be your National Bank notes plus your free gold.

H.M.Jr: Well, that wouldn't show, though, how much gold was on one side of the Atlantic and how much was on the other.

Bell: No, it would not, no, sir.

H.M.Jr: At first blush I'd say all right, but I'd like to think that over.

Bell: That is just part of this picture to be studied before you make your release.

H.M.Jr: I mean at first blush all right, but aren't you glad to have a fellow like Walter Stewart take a look at this?

Bell: Oh, fine, grand.

H.M.Jr: Aren't you glad to have a fellow like him?

Bell: He's very good, yes.

White: Why was consideration of the pros and cons not to be discussed? It appears as though you (to Viner) had some objection to looking at the pros and cons of this.

Viner: No.

H.M.Jr: Now, you stop picking on my Jake. (Laughter)

Haas: Harry is disappointed. He's trying to start a fight.

Viner: I think something is seriously wrong with it, I'll tell you quite frankly; I don't know what it is, but there's been a disgraceful amount of agreement on it. Well, Stewart may find something wrong with it.

H.M.Jr: And Sprague.

Viner: Stewart possibly will, but not Sprague.

H.M.Jr: Well, there's no use sitting around wasting everybody's time. We'll go at it again at 12 tomorrow.

STERILIZING FUTURE ACQUISITIONS OF GOLD

The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

A. The Fund would buy all imported gold.

B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.

C. The Treasury would obtain such funds by increasing the weekly amount of Treasury bills to be sold by an amount sufficient to equal the gold imported during the preceding week.

A more detailed statement of the operation of this plan is as follows:

(a) X, in New York, imports $50,000,000 worth of gold.
(b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
(c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays X for gold by issuing its cashier's check.
(d) X deposits check in its member bank.
(e) Member bank deposits check with Federal reserve bank, receiving credit in its reserve account, thus increasing excess reserves.
(f) Amount of Federal reserve bank's check is charged to account of Stabilization Fund (Secretary's special account).
(g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal reserve bank.
(h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
(i) Treasurer's account with Federal reserve bank will be replenished by sale of $50,000,000 Treasury bills, equivalent to transfer.
(j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal reserve bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

<u>Note</u> 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than $50,000,000 in bills could be sold.

<u>Note</u> 2: Any purchase of gold increases bank <u>deposits</u>. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to Federal reserve banks to the extent of such deposits.

[illegible] 12/7/36

STERILIZING FUTURE ACQUISITIONS OF GOLD

The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

A. The Fund would buy all imported gold.

B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.

C. The Treasury would obtain such funds by increasing the amount of Treasury bills sold to the market.

An illustrative example of the detailed operation of a transaction is as follows:

(a) X, in New York, imports $50,000,000 worth of gold.
(b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
(c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays X for gold by issuing its cashier's check.
(d) X deposits check in its member bank.
(e) Member bank deposits check with Federal reserve bank, receiving credit in its reserve account, thus increasing excess reserves.
(f) Amount of Federal reserve bank's check is charged to account of Stabilization Fund (Secretary's special account).
(g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal reserve bank.
(h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
(i) At selected dates the Treasurer's account with the Federal reserve bank will be replenished by the sale of Treasury bills to the market in amounts sufficient to compensate for the purchases of gold during a given period.
(j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal reserve bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

Note 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than $50,000,000 in bills could be sold.

Note 2: Any purchase of gold increases bank deposits. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to the Federal reserve banks to the extent of such deposits.

CVO:BJ 12/7/38

STERILIZING FUTURE ACQUISITIONS OF GOLD

The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

A. The Fund would buy all imported gold.

B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.

C. The Treasury would obtain such funds by increasing the amount of Treasury bills sold to the market.

An illustrative example of the detailed operation of a transaction is as follows:

(a) I, in New York, imports $50,000,000 worth of gold.
(b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
(c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays I for gold by issuing its cashier's check.
(d) I deposits check in its member bank.
(e) Member bank deposits check with Federal reserve bank, receiving credit in its reserve account, thus increasing excess reserves.
(f) Amount of Federal reserve bank's check is charged to account of Stabilization Fund (Secretary's special account).
(g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal reserve bank.
(h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
(i) At selected dates the Treasurer's account with the Federal reserve bank will be replenished by the sale of Treasury bills to the market in amounts sufficient to compensate for the purchases of gold during a given period.
(j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal reserve bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

Note 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than $50,000,000 in bills could be sold.

Note 2: Any purchase of gold increases bank deposits. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to Federal reserve banks to the extent of such deposits.

CFO:BJ 12/7/36

STERILIZING FUTURE ACQUISITIONS OF GOLD

The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

A. The Fund would buy all imported gold.

B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.

C. The Treasury would obtain such funds by increasing the amount of Treasury bills sold to the market.

An illustrative example of the detailed operation of a transaction is as follows:

(a) X, in New York, imports $50,000,000 worth of gold.
(b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
(c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays X for gold by issuing its cashier's check.
(d) X deposits check in its member bank.
(e) Member bank deposits check with Federal reserve bank, receiving credit in its reserve account, thus increasing excess reserves.
(f) Amount of Federal reserve bank's check is charged to account of Stabilization Fund (Secretary's special account).
(g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal reserve bank.
(h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
(i) At selected dates the Treasurer's account with the Federal reserve bank will be replenished by the sale of Treasury bills to the market in amounts sufficient to compensate for the purchases of gold during a given period.
(j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal reserve bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

<u>Note</u> 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than $50,000,000 in bills could be sold.

<u>Note</u> 2: Any purchase of gold increases bank <u>deposits</u>. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to Federal reserve banks to the extent of such deposits.

December 7, 1936

The attached memo from Kilby showed that at the end of the first day of the December offering the receipts were $3,268,000,000, of which $3,157,000,000 represented cash subscriptions; $78,000,000 represented subscriptions on which the December maturities were presented and $33,000,000, exchange subscriptions on which February maturities were presented.

On the note offering there were $21,000,000 subscriptions in exchange for December notes and $8,000,000 in exchange for February notes.

TREASURY DEPARTMENT

PUBLIC DEBT SERVICE

261

Bonds

Cash	3,157.
Dec X	78.
Feb X	33.
	3,268 AA

Notes

Dec X	21.
Feb X	8.
	29 AA

Dec. 7, 1936

MR. KILBY

CASH OFFERING -	700M Dec.	400M Sep.	600M June
2 p. m. report	1,229M	1,665M	960M
3 p. m. "	1,963	2,421M	1,949M
First Day	2,157	3,639M	2,770M
Final		5,129M	4,282M

Treasury bonds of 1949-53
Cash subscriptions

Up to and including $1,000	$3,313,450
Over $1,000 and not over $5,000 . .	70,681,500
For more than $5,000	4,885,061,450
Total subscriptions	$4,959,056,400

---------- O.K. HMJr
Dec 11th 1936

$1,000 and under in full	3.3%
Over $1,000, 15% . . .	743.4
	746.7

9.25 A.M.

$1,000 and under in full	3.3%
Over $1,000, 16% . . .	732.9
	736.2

Straight 15%	743.9
Straight 16%	733.5

All subject to small increases for adjustments.

December 7, 1936.
3:17 p.m.

H.M.Jr: Hello.

S: Hello Mr. Secretary.

H.M.Jr: How are you?

S: Pretty good.

H.M.Jr: Is this Walter Stewart?

Stewart: That's right.

H.M.Jr: How would you like to come down and see me and discuss a rather confidential matter?

S: I could come down I think almost anytime to suit you.

H.M.Jr: Would this - well I tell you - is tomorrow afternoon too short notice?

S: I'll tell you - I've got one appointment tomorrow night which it would be awfully difficult for me to - ah - .....

H.M.Jr: To break.

S: ....To break because it's a Trustee meeting of a college.

H.M.Jr: Well now I wouldn't want you -

S: I could do it but if you could think of some other time without - that would be convenient to yourself....

H.M.Jr: Yes.

S: .....it would suit me better.

H.M.Jr: Ah -

S: Wednesday?

H.M.Jr: Wednesday? Let me think. Would you - I don't know whether you like to travel on the midnight or get here in the morning.

S: Any way - it doesn't matter.

H.M.Jr: What's that?

S: I'll come either way.

H.M.Jr: Well - ah....

S: If I came in on the night train it might be a good thing.

H.M.Jr: If you came down Tuesday night.

S: Yes I could do that.

H.M.Jr: And then came here in the morning.

S: Yes.

H.M.Jr: Let me ask you a question. Do you hit it off all right with Professor Sprague?

S: Oh yes.

H.M.Jr: You do?

S: Old buddy of mine.

H.M.Jr: Because I've asked him to come down also.

S: Right.

H.M.Jr: Now he's going to be here Wednesday morning at 9:30.

S: Yes.

H.M.Jr: And I've - I've got something that I'd like you both to examine with a magnifying glass.

S: All right.

H.M.Jr: See?

S: All right.

H.M.Jr: And I've got - I mean I'm just going to tell you in confidence knowing I've got full confidence that you will consider it as such.

S: Right, I will.

H.M.Jr: Would you care to bring one of your men with you by the name of Warren?

S: Yes. He's a mighty good man - I'd like you to know him.

H.M.Jr: Well I read his speech and article in the ~~Atlas~~ Analist and if you felt that you could bring him down I' think it would be fine.

S: All right, I'll do that Mr. Secretary.

H.M.Jr: Well then it's - it's - ah shall we say - ah - I was just trying to think about - 9:30 Wednesday morning?

S: 9:30 is all right for me, yes.

H.M.Jr: Fine.

S: Fine, I'll be at your office at 9:30.

H.M.Jr: Thank you very much.

S: And I'll bring Warren along.

H.M.Jr: Thank you.

S: All right, sir - goodbye.

Presented to me on Dec 10, 1936

December 7, 1936. 267

Estimates of Federal Revenues: Revised Estimate for the Fiscal Year 1937; Original Estimate for the Fiscal Year 1938

Total receipts, general and special accounts, in the fiscal year 1937 are estimated in the amount of $5,628 millions, an increase of $1,712 millions over actual receipts in the fiscal year 1936, and of $174 millions over the 1937 budget estimate. In the fiscal year 1938 such receipts, assuming the extension of the temporary taxes, are estimated at $7,295 millions, an increase of $1,465 millions over the revised estimate for the fiscal year 1937. If the temporary taxes are not extended, total receipts for the fiscal year 1938 are estimated at $6,800 millions, a reduction in revenue of $495 millions.

Total receipts from taxes on carriers and their employees, Social Security taxes and the tax on unjust enrichment are estimated at $541 millions in the fiscal year 1937 and $775 millions in the fiscal year 1938. Revenue from the last two sources will be collected for the first time in the fiscal year 1937. Total receipts, exclusive of all of these items, are estimated at $5,287 millions in the fiscal year 1937, an increase of $1,171 millions over actual receipts from the same sources in the fiscal year 1936. For the fiscal year 1938, assuming temporary taxes extended, the corresponding estimate is $6,518 millions, an increase of $1,231 millions over estimated receipts for the fiscal year 1937.

The present revised estimate of receipts for the fiscal year 1937 shows gains over the 1937 budget estimate in receipts from income taxes, miscellaneous internal revenue taxes, customs duties, the tax on unjust enrichment and miscellaneous revenues and receipts. These gains are in excess of the losses in revenue from the 1937 budget estimate resulting from the invalidation by the Supreme Court of the United States of the Agricultural Adjustment Act, and repeal of related taxes, and from the final methods adopted for the collection of taxes imposed by the Social Security Act. The increases in revenue are chiefly the result of the Revenue Act of 1936 and improvement in business conditions. The estimates, by major classes of revenue and receipts, and the changes from the 1937 budget estimate and from actual collections in the fiscal year 1936 are shown in Table 1. The estimates are shown in greater detail in Tables 3 and 4.

<u>Forecast of the major economic factors underlying the present revenue estimates</u> —

The major economic factors underlying revenue estimates are the Federal Reserve Board index of industrial production, the Bureau of Labor Statistics' all commodity wholesale price index, the Bureau of Labor Statistics' index of factory payrolls, automobile production, building contract awards, freight car loadings, and the Standard Statistics' price index of 419 stocks. These data for past years and forecasts for

the calendar year 1936, the fiscal year 1937, the calendar year 1937 and the fiscal year 1938 are shown in Table 2. In the preparation of the revenue estimates it was assumed that the Federal Reserve Board index of industrial production (1923-25=100) will average 105 for the calendar year 1936 and 108 for the calendar year 1937; that the Bureau of Labor Statistics' all commodity wholesale price index (1926=100) will average 81 for the calendar year 1936, and 82 for the calendar year 1937; that the Bureau of Labor Statistics' index of factory payrolls (1923-25=100) will average 79 for the calendar year 1936, and 85 for the calendar year 1937; and that the Standard Statistics' price index of 419 stocks (1926=100) will average 120 in December 1936 and 138 in December 1937.

That these forecasts are reasonably conservative is indicated by the fact that the Federal Reserve Board adjusted index of industrial production stood at 109 for the month of October 1936 and will probably average about 104 for the calendar year 1936. It is probable, moreover, that the Federal Reserve Board index of industrial production will average 2 points higher in the calendar year 1937 than the figure used as the basis for estimating revenue.

Internal Revenue

Income tax —

Total income taxes, exclusive of excess profits, for the fiscal year 1937 are estimated at $2,358 millions, an increase of $946 millions over actual receipts for the fiscal year 1936. Of this increase, current corporate income taxes account for $307 millions and individual income taxes account for $632 millions. A portion of the total increase is attributable to improved earnings and incomes in the calendar years 1935 and 1936, the remainder to the fact that collections in the latter half of the fiscal year 1937 will reflect the changes in income taxation provided for in the Revenue Act of 1936 which first apply with respect to incomes received in the calendar year 1936.

For the fiscal year 1938 total income taxes, exclusive of excess profits, are estimated at $3,359 millions, an increase of $1,001 millions over the estimate for the fiscal year 1937. The major part of this increase is the result of estimated higher corporate profits and individual incomes in the calendar years 1936 and 1937 and of a full year's collection of taxes under the Revenue Act of 1936.

The estimate of back tax collections in the fiscal year 1937 is $220 millions, an increase of $6 millions over actual collections in the fiscal year 1936. In the fiscal year 1938, this source of revenue is expected to provide $225 millions. The bases of the estimate of back tax collections are the tax liabilities of prior years and our estimate of deficiency assessments.

Corporate taxable income and dividend distribution — The large increase in estimates of corporate and individual income tax receipts in the fiscal years 1937 and 1938 reflect estimated higher corporate profits in the calendar years 1936 and 1937 and the effect of the Revenue Act of 1936 which has brought about large dividend distributions in the current calendar year. Under the Revenue Act of 1936 the income of corporations subject to normal tax includes 15 percent of intercorporate dividends, since the Act provides that only 85 percent of dividends received by corporations shall be allowed as a deduction in arriving at taxable income. The Revenue Act of 1935 allowed 90 percent of intercorporate dividends received by corporations as a deduction in determining taxable income. However, the latter Act did not become effective with respect to corporate taxes because it was superseded by the Revenue Act of 1936. The taxable income of corporations in the calendar year 1935 did not include intercorporate dividends and it is estimated in the amount of $5,500 millions. On a comparative basis, such income is estimated at $7,750 millions for the calendar year 1936, a gain of 41 percent over that for 1935, and for the calendar year 1937 it is estimated at $8,900 millions, a gain of 15 percent over that for 1936. The inclusion of 15 percent of estimated intercorporate dividends as provided in the Revenue Act of 1936 raises these estimates to $8,005 millions for the calendar year 1936 and to $9,250 millions for the calendar year 1937.

A sample of 184 corporations, currently maintained by the Division of Research and Statistics, shows that for the first nine months of 1936, published earnings of these corporations increased 58 percent over the corresponding period of the previous year. The statutory net income of all corporations reporting net income show smaller percentage changes than the sample of corporations and on the basis of past experience this sample confirms our estimate of the taxable income of all corporations for the calendar year 1936.

Estimates of dividend distribution, exclusive of intercorporate dividends, by net income and deficit corporations, amount to $5,024 millions in 1936 and $6,086 millions in 1937 as compared with estimated dividend distribution of $2,850 millions in the calendar year 1935.

Taxable net income and sources of income of individuals —

Actual data for past years and estimates of the net income and sources of income of individuals having incomes of $5,000 or more for the calendar years 1936 and 1937 appear in Table 5. It is apparent that although industrial production, corporate profits and security prices are approximately at the levels of the years 1925 to 1927, the estimated taxable net income for 1937 and 1938 is considerably less than for the prior period. The relatively small amount of net income is in part the result of the relatively small volume of capital gains as a source of income. Capital gains are chiefly derived from the

-4-

sale of securities and in view of the marked rise in security prices during the past two years, capital gains equal to the amounts shown for the years 1925 to 1927 would be expected. For the calendar year 1935, net capital gains amounted to only $596 millions and for the calendar years 1936 and 1937 they are estimated at $929 millions and $1,159 millions, respectively. The estimated marked contraction in this source of income is in large part the result of restrictions imposed on stock trading and also of the high rates of individual income taxes and the reluctance of investors to part with securities because of the low prevailing interest rates and the marked recovery in business profits. A further incentive for postponing sales of assets is the provision in the law with respect to taxing capital gains by which the taxable proportion of such gains is reduced according to the length of time held.

During the period 1922-1929, about 60 percent of capital net gains were derived from the sale of assets held less than two years, of which about 75 percent is estimated as held less than one year. Such gains are chiefly derived from trading activity on the stock exchanges. During the depression years the turnover of stocks listed on the New York Stock Exchange declined sharply and has shown little recovery during the past two years, although security prices on the average have risen to the levels of the period 1925 to 1927. Moreover, the rise in averages of security prices during 1935 and 1936 has been as rapid as any two-year period during the years 1921-1930.

Wages and salaries are also estimated in smaller volume than in the period 1925 to 1927, principally because unemployment is still relatively large and average wages and salaries are lower than during this period.

Dividends received by individuals with incomes above $5,000 are estimated in 1936 to be only slightly below the amounts received in 1928 or 1929, and in 1937 dividend receipts are estimated to be in excess of any prior year. The Revenue Act of 1936 is chiefly the cause of the large increase in dividend receipts. Without this Act, it is probable that despite the large increase in corporate profits and probable increase in dividend payments, the taxable net income of individuals with incomes above $5,000 would have been at least $1,000 millions less than estimated in 1936 and in 1937. Of the total estimated net dividend distribution by corporations, $5,024 millions in 1936, $ 774 millions are estimated to be received by nontaxable institutions and individuals and $4,250 millions are estimated to be received by taxable individuals. In the calendar year 1937, $6,086 millions are estimated as the net dividend distribution by corporations, of which $ 976 millions are estimated as nontaxable and $5,110 millions as taxable. It should be noted that if the percentage distribution of earnings by corporations differs from our estimate, the revenue of the Federal Government on a calendar year basis will not vary greatly because whether corporations

distribute or retain earnings the rates of tax on the undistributed earnings will provide approximately the same amount of revenue as though it were taxed in the hands of individuals.

A larger portion of the income tax liability is paid in March and June by individuals than by corporations. Our estimate assumes that corporations will distribute the bulk of their earnings. Hence, estimated income tax receipts in the latter half of the fiscal year 1937 are larger than if corporations retained most of their earnings. The estimate of that part of the individual income tax derived from dividend distribution by corporations assumes in the calendar year 1936 that all such dividends paid to taxable individuals will be reported as income received in the calendar year 1936 and that all methods for escaping taxation under the Revenue Act of 1936 have been effectively closed.

Miscellaneous internal revenue --

Miscellaneous internal revenue taxes, inclusive of excess profits taxes, are estimated to yield $2,290 millions in the fiscal year 1937, an increase of $265 millions over actual collections for 1936 and of $175 millions over the budget estimate. For the fiscal year 1938, assuming temporary taxes are extended, this source of revenue is estimated at $2,514 millions, an increase of $224 millions over the revised estimate for the fiscal year 1937. These gains are entirely the result of estimated improvement in business conditions.

Capital stock tax and excess profits tax --

Revenue from the capital stock tax in the fiscal year 1937 is estimated at $139 millions, an increase of $44 millions over the actual collections in the fiscal year 1936 and a decrease of $24 millions from the Budget estimate for 1937. In the fiscal year 1938, revenue from this source is estimated to increase $3 millions over the fiscal year 1937. The Revenue Act of 1936 permitted corporations to redeclare the value of their capital stock, the rate of tax remaining at $1.00 per thousand dollars of adjusted declared value as under the 1934 Act. The collections thus far in the present fiscal year indicate that corporations have substantially increased the declared value of their capital stock. Consequently, estimates of revenue in the fiscal years 1937 and 1938 are in excess of actual revenue in the fiscal year 1936. The revised estimate for the fiscal year 1937 is less than the 1937 budget estimate which was based upon the rate of tax of $1.40 per thousand dollars of adjusted declared value as provided by the Revenue Act of 1935. Provisions of this Act with respect to the capital stock tax did not become effective, being superseded by those of the 1936 Act.

Revenue from the excess profits tax is estimated in the amounts of $14.5 millions in the fiscal year 1957 and $6 millions in the fiscal year 1958. Many corporations in declaring the value of their capital stock in previous years underestimated their future earnings and consequently were subject to excess profits taxes on earnings of following years. The redeclaration of value made under the Revenue Act of 1956 appears to be sufficiently high to avoid large excess profits taxes. Hence, the estimate for the fiscal year 1958 is considerably less than that for the fiscal year 1957.

Estate and gift taxes —

The estate tax is estimated to provide $505 millions in the fiscal year 1957, an increase over actual collections in the fiscal year 1956 and over the budget estimate for 1957 of $86 millions and $57 millions, respectively. These gains reflect estimated higher value of taxable estates in the fiscal year 1956 and the effect of the Revenue Act of 1955 which will first become fully reflected in revenue in December 1956. The Revenue Act of 1955 provides for larger revenue from estates by lowering the exemption from $50,000 to $40,000, and by increasing the rates of tax. It also extended the time of filing returns from twelve months to fifteen months from the date of the decedent's death. Revenue in the fiscal year 1957 will include two months of collections under the Revenue Act of 1954, three months of relatively small collections because of the extension of time for the filing of returns, and seven months of collections under the Revenue Act of 1955.

In the fiscal year 1958 collections from the estate tax are estimated to increase $159 millions over estimated collections for the fiscal year 1957. This large increase is in part the result of an estimated increase in the value of taxable estates in the fiscal year 1957, but chiefly reflects a full year's collection under the Revenue Act of 1955.

Revenue from the gift tax in the fiscal year 1957 is estimated in the amount of $110 millions, a decrease of $50 millions from collections in the fiscal year 1956. In the fiscal year 1958 revenue from this source is expected to decline further to $75 millions. Although the large dividend distribution by corporations resulting from the Revenue Act of 1956 is an incentive for the making of gifts, it seems unlikely that gifts in the calendar years 1956 and 1957 will be as large as in 1955 when marked increases in individual income tax rates and rates of tax on estates and gifts were enacted to take effect beginning in the calendar year 1956.

Distilled spirits and fermented liquors —

Revenue from taxes on alcoholic beverages is estimated at $594 millions in the fiscal year 1957, a gain of $89 millions over actual receipts in the fiscal year 1956. In the fiscal year 1958 revenue is expected to increase $49 millions over the estimated revenue for the fiscal year 1957. The major part of the increases is accounted for by estimated increases in the consumption of distilled spirits and beer because of improvement in quality,

lower prices for these products and increasing incomes of consumers. Estimates of revenue from excise duties on domestic and imported wines are less than actual receipts in the fiscal year 1956 because the expected increase in the consumption of wines is not sufficient to offset the 50 percent reduction in rates of excise taxes provided by the Liquor Tax Administration Act.

Tobacco manufactures —

Taxes on tobacco manufactures are estimated to provide $542 millions in the fiscal year 1957, an increase over actual collections in the fiscal year 1956 of $41 millions. A further increase of $28 millions over estimated collections for the fiscal year 1957 is expected in the fiscal year 1958. The increases are chiefly due to the growth in small cigarette consumption as a result of increasing consumers' incomes. Other sources of tobacco taxes are expected to show little change.

Documentary stamp taxes —

Revenue from documentary stamp taxes is estimated at $78 millions in the fiscal year 1957, an increase of $9 millions over actual receipts in the fiscal year 1956. The estimate is $13 millions less than that which was estimated in the 1957 budget as a result of smaller trading on the stock exchanges than was expected a year ago. Trading activity on the stock exchanges during the past two years has been small in proportion to the extent of advance in stock prices. In the fiscal year 1958, assuming temporary taxes are extended, revenue from stamp taxes is estimated to increase $5 millions over the estimate for the fiscal year 1957 because of expected moderate increases in security trading and in the volume of refunding and new security issues.

Manufacturers' excise taxes —

Revenue from manufacturers' excise taxes in the fiscal year 1957 are estimated in the amount of $428 millions, an increase of $46 millions over actual collections in the fiscal year 1956. In the fiscal year 1958, assuming temporary taxes are extended, $449 millions are estimated from these sources, a gain over the fiscal year 1957 estimate of $21 millions. The estimated increases are moderate because the taxable sources are consumption goods, most of which show small fluctuations from year to year. The largest increase in revenue is provided by gasoline. Revenue from this source is estimated at $195 millions in the fiscal year 1957 and $204 millions in the fiscal year 1958, as compared with actual collections of $177 millions in the fiscal year 1956. Provisions of the Revenue Act of 1956 affecting revenue from this class of taxes were those repealing the tax on jewelry and changing the tax on articles made of fur.

Miscellaneous taxes —

Revenue from this class of taxes is estimated at $79 millions in the fiscal year 1957, an increase of $6 millions over actual collections for the fiscal year 1956. In the fiscal year 1958, assuming temporary taxes are extended, the revenue is estimated at $83 millions, an increase of $4 millions over the fiscal year 1957. The sources of this classification of taxes are also consumption goods or services and hence the collections show small annual changes.

Other internal revenue

Taxes upon carriers and their employees —

Revenue from this source is estimated in the amount of $155 millions in the fiscal year 1957. Only $48,000 was received in the fiscal year 1956. The estimated tax liability in the fiscal year 1956 was $55 millions, payable in June of that year, but in that month the District Court of the United States for the District of Columbia declared unconstitutional the tax on carriers and their employees and issued an order restraining the Commissioner of Internal Revenue from enforcing the collection of these taxes. Consequently, the tax liability for the fiscal year 1956 is included in the estimate for the fiscal year 1957. If the acts should be declared unconstitutional by the United States Supreme Court, total estimated revenue will be reduced by $155 millions in the fiscal year 1957. Inasmuch as the act providing for taxes upon carriers and their employees terminates February 28, 1957, there will be no revenue from this source in the fiscal year 1958.

The estimate of revenue from this source assumes that a favorable decision on these taxes will be rendered by the Supreme Court of the United States in sufficient time to permit of the collection of these taxes in the fiscal year 1957. Mr. Berge, of the Department of Justice, states as his best guess that a decision by the Supreme Court of the United States could be expected around May 15 or June 1 of 1957. If a decision is not rendered earlier than these months, it is unlikely that the Bureau of Internal Revenue will have sufficient time to collect these taxes before June 30, 1957. If this should be the case, the estimate of collections should be shifted to the fiscal year 1958.

Social Security taxes —

Employment tax (Title VIII) —

Revenue from this tax in the fiscal year 1957 is derived from an income tax of 1 percent on the wages (not in excess of $5,000 per year) received by every individual (excluding certain occupational groups and persons of 65 years of age and over) and an excise tax on each employer equal to 1 percent on wages (not in excess of $5,000 per year) paid by him. These rates of tax apply with respect to employment in the calendar year 1957.

The taxes are payable monthly, but since collections lag behind the tax liability by one month, only five months' collections will be received in the fiscal year 1937 and the revenue is estimated in the amount of $255 millions. The same rates of tax apply in the calendar year 1938 and collections in the fiscal year 1938 are estimated at $622 millions.

Tax on employers of eight or more (Title IX) —

Revenue from this source is estimated at $71 millions in the fiscal year 1937 and $153 millions in the fiscal year 1938. The tax of 1 percent applies to wages paid with respect to employment in the calendar year 1936. Tax payments are not due until January 1937 and may be paid in quarterly installments. In the fiscal year 1937 two quarterly payments will be received, January and April. The rate of tax will be increased to 2 percent in the calendar year 1937 and consequently the Federal revenue will be larger in the fiscal year 1938, including two quarterly payments at the 1 percent rate and two quarterly payments at the 2 percent rate.

The basis of the revenue under this title is an excise tax on every employer equal to certain percentages of the wages paid by him (certain occupations and firms employing persons fewer than eight are excluded). The rates of tax are 1 percent during the calendar year 1936 and 2 percent during the calendar year 1937. The taxpayer is allowed a credit against the Federal tax for all contributions paid into State unemployment funds not in excess of 90 percent of the tax.

If by the beginning of 1936 all states had in operation systems of unemployment compensation, approved by the Social Security Board, the Federal Government would receive in the calendar year 1937 an amount equal to 1/10 of 1 percent of the total taxable payroll. Inasmuch as the Social Security Board does not expect all states to have adopted approved systems before July 1, 1937, and since the law requires that the entire tax of 1 percent of payrolls shall be paid to the Federal Government in the cases where approved systems are not in operation, the estimated revenue in the fiscal year 1937 is larger than it would be with complete State coverage.

Receipts for trust accounts under Title IX of the Social Security Act —

Under Title IX, Section 904(a) of the Social Security Act, an "Unemployment Trust Fund" is established in the Treasury to receive all moneys deposited by a State agency from a State unemployment fund.

For the fiscal year 1936 it was estimated in the 1937 budget that $49 millions would be received into the fund. The adoption and operation of approved systems by states have been slower than was originally expected by the Social Security Board and only $19 millions were received in that year. In the fiscal year 1937 it is estimated that payments into the

trust fund will amount to $278 millions. Thus far in the fiscal year 1937 payments into the trust fund have been relatively small because the adoption and operation of approved systems have not been as rapid as expected. In addition several states have not yet required payment of accrued liability under their laws and in some states, notably California, payments into the trust fund have been delayed because of legal questions pertaining to the deposit of State funds with the Federal Government. It is the opinion of the Social Security Board that payments in the amounts estimated will be received by the Federal Government chiefly in the second half of the fiscal year 1937. In the fiscal year 1938 deposits of State funds into the Unemployment Trust Fund are estimated at $576 millions. This amount is the result of the adoption and operation of approved systems in a larger number of states and in part the increase in the rate of tax from 1 to 2 percent in the calendar year 1937 under Title IX of the Act.

Tax on unjust enrichment —

Revenue from this source is estimated at $82 millions in the fiscal year 1937. There undoubtedly will be considerable litigation in connection with this tax but in the absence of a basis for estimating the results of such litigation the original estimate of $82 millions is retained.

Customs —

Total receipts from customs are estimated at $447 millions for the fiscal year 1937, an increase over actual receipts in the fiscal year 1936 of $60 millions. For the fiscal year 1938, assuming temporary taxes extended, total customs are estimated in the amount of $465 millions. Duties on distilled spirits and wines are estimated to provide $56 millions in the fiscal year 1937, a decrease of $2 millions from computed collections in the fiscal year 1936 and an increase of $8 millions over the 1937 budget estimate. Last November the estimate was based upon the assumption that despite the reduction in import duties increasing supplies of aged American whiskies would preclude imports sufficiently large to offset the decline in rates of duties. Imports, however, increased sharply following the effective date of the Canadian Trade Agreement and have remained at a high level. There are available large supplies of American type whiskies in Canada. Because of large potential imports from Canada and the continuing large imports of Scotch type whiskies, it appears probable that imports of distilled spirits will decline only moderately in the fiscal years 1937 and 1938.

Because of the reduction of approximately 50 percent in rates of duties on imported wines provided by the French Trade Agreement, wine imports are expected to increase, but experience thus far indicates that imports have not increased sufficiently to offset the reduction in rates of duties. Consequently, revenue from imported wines is estimated in smaller amount than in the fiscal year 1936.

Considerable increases in revenue from other dutiable commodities, principally agricultural products, wool and other textile products, metal products, and sundries, are expected because of general improvement in world trade and of shortages of agricultural products in this country. In the fiscal year 1938, a much smaller increase in customs is anticipated because business activity in this country is expected to show only a moderate increase over the level of the fiscal year 1937 and because domestic supplies of agricultural commodities are expected to increase in the latter half of the calendar year 1937.

Miscellaneous revenues and receipts —

Revenues from miscellaneous receipts for the fiscal year 1937 are estimated at $195 millions, a decrease of $24 millions from the comparative receipts for the preceding fiscal year. This difference reflects a reduction of about $50 millions in the 1937 estimate of interest on obligations of the Reconstruction Finance Corporation. This decrease is due to two factors, which made the 1936 figures larger than normal and the 1937 figures subnormal. The 1936 figures included not only the two regular semi-annual payments but two additional ones, one of which was due to the payment of an amount due in 1935, the other to a payment of accrued interest normally due in the fiscal year 1937 because of a refinancing of certain Reconstruction Finance Corporation obligations during the fiscal year 1936. Offsetting factors include an increase of $14 millions in the repayments of loans made by the Resettlement Administration which was a negligible amount in 1936, and an increase of $10 millions due to repayments on account of crop loans made by the Farm Credit Administration from funds allotted under the Emergency Relief Appropriation Act for the Crop Loan of 1936.

Miscellaneous receipts for the fiscal year 1938 are estimated at $182 millions, a decrease of $11 millions as compared with the estimate for the fiscal year 1937. This estimated decrease is the net result of a decrease of $12 millions on account of seigniorage brought about by the expiration, on December 31, 1937, of the authority under the President's Proclamation of December 21, 1935 to receive for coinage silver which has been domestically mined, a decrease of $10 millions in the repayments of crop loans made by the Farm Credit Administration for the 1936 loan which are due and payable during the fiscal year 1937, an increase of $8 millions in the repayment of loans made by the Resettlement Administration, and an increase of $9 millions in interest on obligations of the Reconstruction Finance Corporation because of anticipated collection of the normal amount due during the fiscal year 1938 whereas the collections for the fiscal year 1937 were subnormal as has been previously explained.

Presentation of estimates in the annual report —

In recent years it has been the practice to present in the annual report estimates of current corporation and current individual revenues separately. Since we have had no experience with the distribution of corporate profits under an undistributed profits tax, it is suggested that in the annual report for the fiscal year 1936 that estimates of corporation and individual income taxes be combined in a single item "Current corporation and individual income taxes".

Estimated revenues and receipts

Revised estimate fiscal year 1937; budget estimate (January 6, 1936) fiscal year 1937; actual fiscal year 1936 1/

(In millions of dollars)

	Revised estimate fiscal year 1937	Estimated fiscal year 1937 in 1937 budget	Actual fiscal year 1936	Revised estimate fiscal year 1937, increase (+) or decrease (-) over 1937 budget estimate	Revised estimate fiscal year 1937, increase (+) or decrease (-) over actual 1936
Income taxes	2,372.9	1,947.6	1,426.6	+ 425.3	+ 946.3
Miscellaneous internal revenue	2,275.0	2,110.4	2,009.6	+ 164.6	+ 265.4
Customs	446.8	354.0	386.8	+ 92.8	+ 60.0
Total	5,094.7	4,412.0	3,823.0	+ 682.7	+ 1,271.7
Processing taxes (Agricultural Adjustment Administration)	-	547.3	76.7	- 547.3	- 76.7
Total	5,094.7	4,959.3	3,899.7	+ 135.4	+ 1,195.0
Tax upon carriers and their employees	134.5	101.6	2/	+ 32.9	+ 134.5
Social Security taxes	324.6	433.2	-	- 108.6	+ 324.6
Tax on unjust enrichment	82.0	-	-	+ 82.0	+ 82.0
Total	5,635.8	5,494.1	3,899.7	+ 141.7	+ 1,736.1
Miscellaneous revenues and receipts	192.5	160.1	216.3	+ 32.4	- 23.8
Total revenue and receipts	5,828.3	5,654.2	4,116.0	+ 174.1	+ 1,712.3

Treasury Department, Division of Research and Statistics

December 5, 1936.

1/ Daily Treasury Statement basis (unrevised)

2/ Actual collections for 1936, tax upon carriers and their employees, $48,279.

Table 2.

Basic Economic Factors Underlying Revenue Estimates for the Fiscal Years 1957 and 1958

Calendar years	F.R.B. Index of Industrial Production	B.L.S. All-Commodity Wholesale Price Index	B.L.S. Index of Factory Payrolls 2/	Standard Statistics price index of 419 stocks, Dec. ave.	U.S. auto production of cars and trucks	Total value of bldg. contract awards, monthly average	Total freight car loadings wk. average
	1923-25=100	1926=100	1923-25=100	1926=100	thous. units	million $	thous. cars
				Actual			
1925	104	105.5	101	100.5	4,266	500.5	984
1926	108	100.0	104	105.4	4,501	551.7	1,026
1927	106	95.4	102	155.1	5,401	525.5	995
1928	111	96.7	102	171.4	4,559	552.4	995
1929	119	95.5	109	155.8	5,358	479.2	1,014
1930	96	86.4	89	109.4	5,356	377.0	879
1931	81	75.0	68	58.4	2,590	257.7	716
1932	64	64.8	46	47.1	1,371	112.6	545
1933	76	65.9	48	70.4	1,920	104.9	557
1934	79	74.9	61	69.6	2,755	128.6	591
1935	90	80.0	70	95.5	5,947	155.7	606
				Estimated			
1936 1/	105	81	79	120	4,500	250	685
1937	108	82	85	138	4,775	320	750
Fiscal years							
1937	108	81.5	85				
1938	111	83	87				
Present level, Oct. 1936	109	81.5	86.5	118.7			

1/ Actual through October, remaining months estimated.
2/ Unrevised series.

Treasury Department,
Division of Research and Statistics,
December 7, 1936.

Table 5.

Sources of Individual Income, Returns Showing Net Income of $5,000 and Over

(In millions of dollars)

Calendar years	Business and partnership	Profits from sale of assets	Dividends	Wages and salaries and all other income	Taxable net income
			Actual		
1925	3,046	2,664	3,045	8,071	12,623
1926	3,068	2,137	3,581	6,581	12,932
1927	3,059	2,593	3,762	6,846	13,776
1928	3,356	4,580	4,010	7,477	16,660
1929	3,335	4,390	4,247	7,734	16,359
1930	2,002	1,084	3,709	6,412	10,150
1931	1,258	367	2,584	4,802	6,585
1932	639	122	1,541	3,068	4,182
1933	795	442	1,200	2,670	4,108
1934	1,007	160	1,585	3,261	4,964
1935 (1)	1,199	393	1,789	3,667	5,977
			Estimated		
1936	1,915	929	3,870	4,658	9,771
1937	2,148	1,139	4,630	5,163	11,294

(1) Estimate based upon returns filed to August 31, 1936.

Treasury Department,
Division of Research and Statistics,
December 5, 1936.

TABLE 2

Estimate of Receipts and Receipts

General and Special Account	Estimated Fiscal Year 1987 (Revised Budget)	Estimated Fiscal Year 1988 (Revised Budget)	Estimated Fiscal Year 1989 (Revised)	Actual Fiscal Year 1986	Actual Fiscal Year 1987	Increase or Decrease 1988 over 1987	Increase or Decrease 1989 over 1988	Increase or Decrease 1989 over 1986
Income:								
1. Internal Revenue								
(1) Income Tax *	3365,300,000	3,365,300,000	3,372,000,000	1,021,[illegible]452.14	$1,105,671,120.44	382,400,000	382,300,000	996,328,566.16
(2) Miscellaneous internal revenue taxes *								
Capital stock tax	142,000,000	142,000,000	139,000,000	99,942,731.74	91,301,121.29	3,000,000	3,000,000	48,057,268.26
Estate tax	464,100,000	464,100,000	306,100,000	211,788,789.53	140,940,512.34	158,000,000	158,000,000	31,311,206.87
Gift tax	75,000,000	75,000,000	110,000,000	160,658,761.97	71,471,174.69	- 35,000,000	- 35,000,000	- 50,057,761.97
Alcohol beverage taxes	643,700,000	643,700,000	598,500,000	585,242,772.31	610,925,561.34	44,800,000	44,800,000	13,257,228.69
Tobacco taxes	569,347,000	569,347,000	541,500,000	500,775,315.03	458,775,134.94	27,700,000	27,700,000	40,724,684.97
Stamp taxes	41,845,000	33,975,000	37,600,000	42,845,185.60	43,133,373.45	- 3,600,000	3,600,000	3,620,118.40
Miscellaneous excise taxes	425,000,000	498,500,000	435,500,000	352,342,182.90	340,034,225.19	- 385,700,000	30,100,000	43,657,817.10
Banks (taxes)	32,000,000	22,000,000	28,000,000	43,060,961.95	41,201,[illegible]	- 6,000,000	6,000,000	2,939,038.05
Other (miscellaneous)	2,011,682,000	2,505,352,000	2,294,982,000	2,004,513,359.53	1,644,[illegible]	- 365,385,000	210,370,000	290,468,640.47
Adjustment to daily Treasury statement	+ 20,800,000			+ 5,062,142.63	+ 30,[illegible]	+ 25,300,000		- 5,062,142.63
Total Miscellaneous internal revenue taxes *	2,032,482,000	2,505,352,000	2,294,982,000	2,009,575,516.16	1,650,[illegible]	- 340,085,000	210,370,000	285,394,483.84
(3) Processing taxes (Agricultural Adjustment Act and Termination *)	—	—	—	76,[illegible]	121,[illegible]	—	—	76,[illegible]
(4) Other internal revenue taxes: *								
Tax on import securities	—	—	57,000,000	—	—	- 57,000,000	- 57,000,000	57,000,000.00
Taxes on employees and their employees	—	—	134,[illegible]	41,278.74	—	- 134,[illegible]	- 134,[illegible]	134,[illegible]
Social Security taxes	774,800,000	774,800,000	520,[illegible]	—	—	415,000,000	415,000,000	520,[illegible]
Total other internal revenue taxes	774,800,000	774,800,000	591,[illegible]	41,[illegible]	—	357,[illegible]	357,[illegible]	591,[illegible]
Total Internal Revenue	6,[illegible]	6,[illegible]	5,[illegible]	2,[illegible]	3,[illegible]	883,563,000	1,989,412,000	1,676,[illegible]
2. Customs *	445,200,000	445,200,000	446,[illegible]	326,811,[illegible]	342,[illegible]	- 1,600,000	16,200,000	39,[illegible]
3. Miscellaneous receipts and receipts *	182,000,000	182,000,000	192,500,000	216,252,412.83	179,[illegible]	- 10,500,000	- 10,500,000	- 23,[illegible]
Total Receipts, General and Special Accounts	6,799,782,000	7,293,432,000	7,328,500,000	4,115,[illegible]	3,[illegible]	871,[illegible]	1,965,112,000	1,712,[illegible]
Deficit Accounts Deposits by States under the Social Security Act *	576,300,000	576,300,000	278,300,000	15,409,421.44	—			

Revised
[illegible]
[illegible]

* Excess paid in lieu of [illegible] of the income of the States shown above [illegible] from Miscellaneous Internal Revenue [illegible] and chapter of 1936.

* Miscellaneous internal revenue taxes in form of [illegible] and [illegible] fund [illegible].

* On the basis of daily Treasury statement (revised).

* Total miscellaneous internal revenue, daily Treasury statement basis ([illegible]) [illegible] $[illegible] [illegible] from the [illegible] [illegible] employees.

TABLE 4

Estimates of Revenue and Receipts

Goods and Services Tax	Estimated Revenue 1 April 1986 to 31 March 1987	Estimated Revenue 1 April 1987 to 31 March 1988	Estimated Revenue 1 April 1988 to 31 March 1989	Actual Revenue April 1986	Actual Revenue April 1987	Revenue April 1988 to March 1989	Revenue April 1989 to March 1990	Estimated Revenue 1 April 1990 to 31 March 1991
1. Ordinary revenue								
(a) Income Tax								
Individual Income	1,255,000,000	1,325,000,000	1,417,000,000	6,012,732,36	6,965,261,219.40	325,000,000	325,000,000	347,857,367.36
Individual Surcharge	1,275,000,000	1,275,000,000	1,220,000,000	889,366,280.99	445,201,112.90	625,000,000	625,000,000	625,000,000.21
Bank Interest	225,000,000	225,000,000	225,000,000	213,257,531.06	182,641,113.24	2,000,000	2,000,000	6,692,000.95
Company Tax	[illegible]	[illegible]	[illegible]	16,105,280.27	6,760,122.62	7,000,000	7,000,000	[illegible]
Total income tax (excluding bonus)	3,256,000,000	3,325,000,000	3,378,000,000	1,027,993,594.36	1,040,727,707.56	959,000,000	959,000,000	1,000,000,000.21
Adjustment to Early Training Allowance ([illegible])	—	—	—	1,474,424.42	1,265,131.88	—	—	1,000,000.00
Total income tax (excluding bonus)	3,256,000,000	3,325,000,000	3,378,000,000	1,026,519,170.94	1,039,462,576.68	959,000,000	959,000,000	999,000,000.21
(b) Mining (including petroleum mining taxes)								
Coloured stone tax	142,000,000	142,000,000	158,000,000	94,944,731.39	91,502,121.29	3,000,000	3,000,000	4,005,294.86
Diesel tax	464,000,000	464,000,000	301,000,000	211,710,723.53	142,440,618.34	155,000,000	155,000,000	76,314,294.95
Gold tax	32,000,000	34,000,000	110,000,000	1,561,861,781.47	711,[illegible]	32,000,000	32,000,000	10,447,[illegible]
Total	638,000,000	641,000,000	569,000,000	1,872,518,236.39	1,045,[illegible]	190,000,000	190,000,000	90,767,304.86
Excise duties (excluding bonus)								
Distilled spirits (excluding bonus)	24,000,000	24,000,000	26,000,000	19,551,165.96	18,107,926.36	2,000,000	2,000,000	2,000,000.00
Malted spirits (excluding bonus)	247,000,000	247,000,000	247,000,000	200,441,882.93	320,831,447.38	27,000,000	27,000,000	37,500,121.37
Imported malt liquor (excluding bonus)	311,000,000	311,000,000	311,000,000	244,570,570.93	211,213,042.64	22,000,000	22,000,000	23,[illegible]
Wines (including sacramental wine) (excluding bonus)	6,000,000	5,000,000	5,000,000	1,974,280.92	1,779,110.69	200,000	200,000	2,000,[illegible]
[illegible]	16,000,000	16,000,000	16,000,000	[illegible]	[illegible]	1,000,000	1,000,000	[illegible]
[illegible]	19,000,000	19,000,000	19,000,000	[illegible]	[illegible]	1,000,000	1,000,000	[illegible]
Horse racing (including bonus)	—	—	—	[illegible]	2,021,[illegible]	—	—	[illegible]
Betting taxes and [illegible] (excluding bonus)	4,100,000	4,100,000	4,100,000	4,[illegible]	4,[illegible]	—	—	[illegible]
Other [illegible] (excluding bonus)	2,600,000	2,600,000	2,600,000	2,450,210.26	[illegible]	—	—	[illegible]
Total excise duties (excluding bonus)	641,700,000	643,700,000	630,000,000	503,[illegible]	410,[illegible]	29,200,000	29,200,000	[illegible]
Tobacco tax								
Cigars (large)	12,000,000	12,000,000	12,000,000	11,[illegible]	11,294,965.[illegible]	300,000	300,000	[illegible]
Cigarettes (large)	495,000,000	495,000,000	485,000,000	425,[illegible]	325,[illegible]	27,000,000	27,000,000	[illegible]
Snuff	3,000,000	3,000,000	6,000,000	6,[illegible]	6,[illegible]	100,000	100,000	800,[illegible]
Smoking, chewing and smoking tobacco, prepared and [illegible]	55,000,000	55,000,000	55,000,000	55,[illegible]	54,[illegible]	800,000	800,000	[illegible]
Other tobacco taxes	1,000,000	1,000,000	1,000,000	1,[illegible]	[illegible]	—	—	[illegible]
Total tobacco duty	567,000,000	567,000,000	561,000,000	500,[illegible]	416,[illegible]	27,200,000	27,200,000	[illegible]
Stamp duties								
Conveyance of immovable [illegible] and [illegible]	15,000,000	27,000,000	34,000,000	21,[illegible]	15,[illegible]	15,000,000	3,000,000	[illegible]
Bank [illegible]	20,000,000	31,000,000	34,000,000	33,[illegible]	13,[illegible]	13,000,000	3,000,000	[illegible]
Other of [illegible]	[illegible]	[illegible]	4,000,000	2,[illegible]	3,[illegible]	8,000,000	1,000,000	[illegible]
[illegible]	170,000	150,000	600,000	[illegible]	1,[illegible]	125,000	125,000	[illegible]
Stamp duties	40,000,000	[illegible]	[illegible]	[illegible]	[illegible]	50,000	[illegible]	[illegible]
Total stamp duties	81,000,000	71,000,000	73,000,000	[illegible]	[illegible]	36,000,000	[illegible]	[illegible]
Manufactured goods duties								
Manufacturing [illegible]	1,000,000	33,000,000	31,000,000	27,102,831.37	27,800,245.73	28,000,000	1,000,000	[illegible]
Sugar, direct [illegible]	100,000	100,000	100,000	1,016,110.74	[illegible]	[illegible]	—	[illegible]
Petroleum	300,000	3,000,000	3,000,000	6,872,874.42	6,000,101.36	6,000,000	300,000	[illegible]
Tobacco	13,000,000	140,000,000	150,000,000	177,389,327.36	162,530,398.08	131,000,000	9,000,000	[illegible]
Motor vehicles	4,500,000	[illegible]	36,000,000	35,526,179.22	32,977,254.86	35,000,000	500,000	[illegible]
Tyres and tubes	7,000,000	37,000,000	36,000,000	32,051,993.03	31,671,774.45	25,000,000	500,000	[illegible]
Toilet preparations, etc.	1,000,000	13,000,000	13,000,000	13,301,986.65	12,642,117.01	13,000,000	500,000	[illegible]
Distilled essence of [illegible]	2,000,000	1,000,000	4,000,000	3,021,027.10	2,672,731.07	3,000,000	1,000,000	[illegible]
Sundry etc.	—	—	—	3,110,640.97	2,038,102.48	—	—	[illegible]
[illegible]	3,000,000	3,000,000	3,000,000	3,090,285.69	3,[illegible]	3,000,000	—	[illegible]
Motor [illegible]	7,000,000	55,000,000	55,000,000	41,200,845.25	38,003,398.13	40,000,000	4,000,000	[illegible]
Other [illegible]	1,000,000	8,000,000	8,000,000	7,110,189.33	6,452,[illegible]	6,000,000	1,000,000	[illegible]
Total [illegible]	250,000	7,000,000	5,000,000	3,073,270.53	3,049,[illegible]	4,000,000	500,000	[illegible]
Motor vehicle depreciation	4,000,000	11,000,000	8,000,000	7,103,042.35	6,684,[illegible]	6,000,000	1,000,000	[illegible]
[illegible]	500,000	5,000,000	5,000,000	4,104,040.62	4,[illegible]	4,000,000	500,000	[illegible]
Animal [illegible]	300,000	4,000,000	3,000,000	2,[illegible]	2,[illegible]	2,000,000	300,000	[illegible]
Other [illegible]	50,000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total manufactured goods duties	46,000,000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimate of Revenue and Receipts

A. General and Special Account								
Revenue - Internal								
1. Internal Revenue - Internal								
(1) Miscellaneous internal revenue taxes - internal								
Income Taxes								
Telephone, telegraph, cable and radio facilities, local service	1,250,000	22,400,000	20,000,000	21,098,347.65	18,741,430.19	- 22,250,000	1,900,000	3,241,652.35
Transportation of oil by pipe line	750,000	11,000,000	10,250,000	9,972,935.46	9,970,730.57	- 9,950,000	300,000	796,064.35
Transfer of safe deposit boxes	1,500,000	2,100,000	600,000	1,897,409.57	2,317,639.30			417,639.30
Admissions to theaters, concerts, sporting events, etc.	5,650,000	20,000,000	14,350,000	17,112,137.96	12,372,347.16	- 14,140,000	1,400,000	2,232,347.16
Club dues and initiation fees	7,000,000	7,000,000	—	6,010,983.21	5,794,494.98	- 700,000	700,000	694,494.98
Miscellaneous, not included in special taxes	3,000,000	3,000,000	—	2,250,392.62	2,062,460.90	- 300,000	300,000	879,539.90
Corporate and other capital stock, gross receipts	+ 11,200,000	+ 11,200,000	+ 11,200,000	+ 11,730,982.18	+ 7,316,608.82	- 100,000	- 100,000	- 4,314,392.18
Recovery tax on excess profits taxes	1,000,000	1,000,000	1,000,000	1,348,784.57	1,348,777.47	—	—	- 165,788.57
Withholdings under the Act	—	—	—	729,217.61	—	—	—	- 729,217.61
All other employed capital, gross	1,000,000	1,000,000	1,000,000	1,128,128.20	1,000,000.00	—	—	- 128,128.20
Total, Daily Statement	32,450,000	18,000,000	13,550,000	93,640,841.05	71,131,338.43	- 36,490,000	3,700,000	17,558,661.57
Total miscellaneous internal revenue taxes (Monthly)	2,011,150,000	2,514,152,000	2,276,962,000	2,084,313,334.33	2,069,456,935.90	- 2,514,152,000	237,962,000	428,646,064.67
Adjustment to daily Treasury Statement (increase)	+ 28,850,000	—	—	+ 400,112,187.44	+ 350,012.11	+ 28,850,000	—	28,499,887.89
Total miscellaneous internal revenue taxes (Treasury Statement)	2,040,000,000	2,514,152,000	2,276,962,000	2,484,425,521.06	2,069,806,948.01	- 2,485,302,000	237,962,000	457,145,952.05
Total internal revenue, exclusive of processing taxes, collected on dairy products, fruit, nuts, and vegetables	2,337,782,000	2,873,652,000	4,647,352,000	2,484,425,521.06	2,069,806,948.01	- 2,485,302,000	237,962,000	457,145,952.05
Total internal revenue, exclusive of processing taxes, collected on dairy products, fruit, nuts, and vegetables (Treasury Statement)								
(4) Processing and other taxes (Reconciliation of Treasury Statement and Internal Revenue Bureau)								
Processing and related taxes on fruit, nuts, and vegetables (Treasury Statement)								
Cotton (including pulled and ginned)	—	—	—	+ 3,422,395.35	+ 94,051,450.93	—	—	- 3,422,395.35
Wheat	—	—	—	9,491,516.44	+ 180,100,989.35	—	—	- 9,491,516.44
Corn	—	—	—	924,922.31	+ 4,198,579.27	—	—	- 924,922.31
Sugar	—	—	—	3,773,023.14	+ 178,601,006.56	—	—	- 3,773,023.14
Tobacco	—	—	—	+ 13,176,197.27	+ 30,512,049.12	—	—	- 13,176,197.27
Peanuts	—	—	—	+ 26,406,017.31	+ 60,302,711.49	—	—	- 26,406,017.31
Rice	—	—	—	132,099.57	+ 3,571,920.35	—	—	- 132,099.57
Rye	—	—	—	+ 663,797.57	+ 82,462.73	—	—	- 663,797.57
Flax	—	—	—	+ 158,968.85	—	—	—	- 158,968.85
Total processing taxes	—	—	—	45,556,163.83	550,778,819.11	—	—	- 45,556,163.83
Cotton processing taxes	—	—	—	451,881.03	3,172,579.16	—	—	- 451,881.03
Internal revenue taxes	—	—	—	1,414,828.49	3,281,374.77	—	—	- 1,414,828.49
Potato starch taxes	—	—	—	22,938.96	—	—	—	- 22,938.96
Total taxes (collection basis)	—	—	—	47,549,776.85	557,232,773.04	—	—	- 47,549,776.85
Adjustment to daily Treasury Statement (increase)	—	—	—	+ 2,025,216.15	+ 6,279,245.91	—	—	+ 2,025,216.15
Total processing and related taxes (Treasury Statement basis)	—	—	—	49,574,993.00	563,512,018.95	—	—	- 49,574,993.00
(5) Other internal revenue taxes								
Taxes above not included in employees	—	—	134,552,000	49,274.74	—	- 134,552,000	- 134,552,000	134,502,725.26
Quick income taxes (Title VIII, Revenue Act of 1942)								
Employment tax (Title VIII)	621,000,000	621,000,000	633,000,000	—	—	361,000,000	361,000,000	333,000,000.00
Tax withholdings of 5% rate (Title IX)	133,000,000	133,000,000	71,000,000	—	—	71,000,000	71,000,000	71,000,000.00
Total Social Security Taxes	754,000,000	754,000,000	704,000,000	—	—	432,000,000	432,000,000	404,000,000.00
Tax on employment	—	—	22,000,000	—	—	- 22,000,000	- 22,000,000	22,000,000.00
Total other internal revenue taxes	754,000,000	754,000,000	704,552,000	49,274.74	—	431,000,000	431,000,000	404,502,725.26
Total internal revenue (collection basis)	6,151,792,000	6,641,911,000	6,181,000,000	2,599,371,700.41	2,576,089,351.19	962,000,000	1,524,912,000	1,581,628,299.59
Adjustment to daily Treasury Statement (increase)	+ 20,000,000	—	—	+ 13,836,179.58	+ 7,006,221.63	+ 20,000,000	—	6,163,820.42
Total internal revenue (Treasury Statement)	6,171,792,000	6,641,911,000	6,181,000,000	2,613,207,879.99	2,583,095,572.82	982,000,000	1,524,912,000	1,587,792,120.01
2. Customs:								
Total customs (collection basis)	+ 995,000,000	+ 1,210,000,000	+ 990,000,000	+ 314,941,985.39	+ 344,041,725.20	- 1,000,000	16,000,000	675,058,014.61
Adjustment to daily Treasury Statement (increase)	—	—	—	- 128,271.36	- 1,882,326.68			128,271.36
Total customs (Treasury Statement basis)	995,000,000	[illegible]	990,000,000	314,813,713.63	342,159,398.52	- 1,000,000	16,000,000	675,186,286.37
3. Miscellaneous (Revenue and Receipts)								
Total receipts, generated under general and special accounts (collection basis)	133,000,000	133,000,000	170,000,000	2,146,883,713.00	179,476,100.00	- 133,000,000	- 170,000,000	2,146,883,713.00
Adjustment to daily Treasury Statement (increase)	6,579,992,000	7,000,000,000	7,000,000,000	8,962,166,000.00	3,796,883,370.84	7,000,000,000	7,000,000,000	8,962,166,000.00
Total receipts, general and special accounts (Treasury Statement)	+ 26,000,000	—	—	+ 13,186,332.05	+ 8,008,221.82	+ 26,000,000	—	12,813,667.95
	6,579,992,000	7,000,000,000	7,000,000,000	11,121,050,045.15	3,800,891,592.66	7,000,000,000	7,000,000,000	11,121,050,045.15
III. Trust Accounts								
Receipts by them under the Social Security Act	574,000,000	870,000,000	271,300,000	18,999,981.44	—	299,000,000	[illegible]	

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

December 7, 1936.

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses four copies of despatch No. 4695 of November 24, 1936, from the American Legation, Bern, quoting a translation of a communiqué appearing in the Swiss press with regard to approval by Switzerland of the tripartite monetary agreement of September 25, 1936.

See diary Nov 28

Enclosure:
As stated.

Memorandum of a Conference in the Cabinet Room at the White House, 10 A.M., December 8, 1936. Present: Secretary of the Treasury, Marvin McIntyre, Harry Hopkins, Mr. Bell and Mr. McReynolds of the Treasury.

Mr. McIntyre presented a copy of a message from the President, as follows: "Tell Henry and Harry and Dan that I agree too drastic cuts should not be made, especially in the cities."

* * * * * *

Mr. Hopkins: Here is the situation this morning. We are transferring 250,000 drouth cases from Work Relief to Tugwell. He has the money recently transferred to him by Mr. Bell to take care of them. The Tugwell organization cannot set up the machinery to examine every one of those cases for the purpose of making their own decision whether they are entitled to relief. Therefore, what we are trying to do is to get them to take the entire group over for the first month, so that they will be taken care of while they make their own study to determine which of them should be dropped.

I think McIntyre should call Alexander, who is, I understand, in charge of the Resettlement office, and ask him to do this.

(Mr. McIntyre immediately telephoned to Alexander and asked him to come over during the morning to discuss this matter)

We are also dropping from the rolls the cases which were not taken from relief rolls. Then we are canvassing all of our cases on W.P.A. to determine whether they are now eligible for relief on the basis of need. There are many cases which were needy when placed on our rolls whose status has changed in the last few months because some member of the family is now employed. We are undertaking to identify all such cases and drop them from the rolls, and we are satisfied that we can drop 150,000 who have resources like that. In fact, that is about half done now. About three percent of W.P.A.'s whole roll quits to take other jobs every month, under normal conditions, and we are not now planning to replace

those who quit up to 150,000.

This will enable us to drop a total of at least 500,000 from the rolls by the first of January, as follows: Drouth relief, 250,000; remove from rolls, survey of needs, 150,000; persons not taken from relief rolls, 25,000; and other Federal agency projects, 80,000.

Secretary Morgenthau: I do not see where you will get the 150,000 people to drop because they are without a relief status. If your turnover is only three percent a month and you expect to make the reduction merely by failing to replace the ones who quit, you would only get a reduction of 60- or 70,000 by January first.

Mr. Hopkins: I am doing it by making a survey of the needs of these people.

Secretary Morgenthau: Taking your figures, the normal drop for the month of December would be from 60- to 70,000. What you have been doing up to now when these drops are made is to replace them. The information that I get from your organization is that there is nothing to indicate you will be able to certify 150,000 names off the rolls.

Mr. Hopkins: I'm telling you there is. You do not get that information from me. I have no interest in the information you may have gotten from somebody in my office.

Secretary Morgenthau: Every bit of information that I have I got by calling your office.

Mr. Hopkins: I'm telling you, as the head of this organization, that we are going to certify off the rolls 150,000. That ought to be good enough for you.

Secretary Morgenthau: When we saw the President on November 15, we found there were a hundred thousand more people on the rolls than you stated were there. You were mistaken then.

Mr. Hopkins: I do not see what that has got to do with this. You are saying you do not think I can check 150,000 off; I say I can.

Secretary Morgenthau: What I am saying is this. I am not saying you can or can't. What I am doing is raising the question as to the advisability of making so drastic a reduction.

Mr. Hopkins: That is not causing this serious trouble. What is causing the real kick is that I am giving this money out now - For a long time we gave out our quotas on a job basis, but in order to get real control you have got to distribute your dollars as well as your places. We are now making an equitable distribution of whatever dollars we have, based on the number of people on the relief rolls and the cost per man in each locality. It costs more to work a man in New York City than in Birmingham, so we give New York more money per man. And it is this quota basis of dollars that is causing the kick from men like LaGuardia.

Mr. McIntyre: The only thing that I have in mind at all is, as a matter of policy and advisability, how fast you want to make this curtailment.

Secretary Morgenthau: We have been working on this while you were away. There is something much more important to consider than you or me. The people will blame the President. What I am trying to think of is the President's interest and the country's interest. I am trying to think of a way that this can be done so that the President can defend what has been done. I would rather see you refuse to replace the normal turnover, so that you will save merely the amount of that turnover, than to see drastic cuts made at this time of the year; that course would be defensible. Just as soon as you undertake to drop as many from the rolls in one month as you would normally drop in three, and do it in the middle of the winter, you are doing something that you cannot defend.

Mr. Hopkins: The only thing the President cannot defend is if we are throwing off people who are in need of relief. I maintain we are not doing that. We

do not intend to drop anybody who is in need of relief. If we do inadvertently in the rush of work, we will put them back on. I grant you our publicity is difficult. I wanted to say these things we have talked about here. I want to say them now.

Mr. McIntyre: I think the most important thing is to make a plan that no one actually in need of relief is to be dropped from the rolls during the winter months.

Secretary Morgenthau: Now, this is right in this room and very confidential; what I say is this. If you can find 150,000 people now on the relief rolls who you say now are not in need of relief, how are you going to answer the charge that you must have known before November that these people were not in need of relief? How can you explain in the month of December, two weeks before Christmas, that you can find 150,000 on the relief rolls not in need of relief, when you could not discover this excess in your rolls a month earlier?

Mr. Hopkins: The President does not have to take the heat on this until he gets back. That is why I think this is the time it should be done. Give him these reductions; get the roll down to 2,300,000. We are running out of money at the end of January. We have got to go in for a deficiency appropriation, and that appropriation will be more than the President is thinking about today. The place the budget is unbalanced is in my shop. There's going to be some headaches in the cutting, no matter when the cutting is done. If we cave in every move we make, we are never going to get anything done.

Mr. McIntyre: I know you are perfectly willing to do this and I see your point. But there is no way you can take the responsibility. The President will have to take it. There is a happy medium where you can avoid the charge that you must have known months ago those people should be removed from the rolls, and still speed up the program.

Secretary Morgenthau: It is rather unusual that I should be here as Secretary of the Treasury pleading with you to spend money. What I do not want to see in this country is violence and broken heads.

Mr. Hopkins: You cannot assume that I am going to do that after three and a half years of experience.

Secretary Morgenthau: There is danger if you are going to lay off 150,000 people in less than one month.

Mr. Hopkins: I have that 150,000, or at least 100,000 of them, without lifting my finger. The period involved is more than a month. It is from November 15 to the first of January.

Secretary Morgenthau: You say 60- to 70,000 a month.

Mr. Hopkins: I can get 100,000 without raising a finger by refusing to replace the normal drops from the roll.

Secretary Morgenthau: Has that order gone out yet forbidding replacements?

Mr. Hopkins: It is out, verbally only. I do not want to give a written order on that.

Secretary Morgenthau: The trouble is about that that my information is that LaGuardia has said he has a deal to the effect that the Federal Government will replace the vacancies that occur in the relief rolls in New York and as an offset for that he will put up money for the P.W.A.

Mr. Hopkins: I am not committed to any deals involving P.W.A.

Mr. McIntyre: What Henry has in mind is that you ought to stick to the normal turnover, and if your drops amount to only three percent of the rolls during this period you should be satisfied with that for the present.

Secretary Morgenthau: Of this 150,000, how many have already left the rolls?

Mr. Hopkins: 80,000, I suppose. What I wanted to do was to

clear the relief rolls as far as possible of all cases not meriting relief, so that I can walk into this session of Congress with a conviction in my own mind that there is actual need in every case of persons on the rolls.

Mr. McIntyre: Your conviction and the actual condition of the rolls are two different things. How can you defend the fact that you did not discover the padding of these rolls until after the election?

Mr. Hopkins: The President will not be involved in this if we can get the reductions made before he gets back.

Secretary Morgenthau: Up to Thursday no written orders had gone out to the effect that replacements should not be made.

Mr. Hopkins: I am not going to send any written orders. I am giving those orders verbally. We are not today making any replacements. My plan was not to make any replacements of the first 150,000 dropped.

* * * * *

After a somewhat extended discussion between Secretary Morgenthau and Mr. Hopkins with respect to the propriety of making arbitrary cut-offs from the emergency rolls beyond the normal decrease, and the relief that will result from the operation of the Social Security Act, Mr. Hopkins stated that he intended to make that afternoon a public statement that no person on the relief rolls who was still in need of relief would be dropped. He said he would explain that the 150,000 figure used in previous statements should not be considered as a fixed figure. He would also say that he was going to drop the administrative and non-relief people from the rolls, and explain that in the recent allotments he was equalizing the distribution of dollars as well as jobs. He said he would not announce that no replacements would be made, because it was his intention, if he considered it absolutely necessary to do so, to make replacements.

* * * * *

Mr. McIntyre: I still feel, Harry, that I would make the reductions as gradually as you possibly can.

Mr. Hopkins: Suppose I make this statement to the press this afternoon about four o'clock. Let us see what reaction we get to that statement. If the reaction is bad we'll call another meeting right away and discuss the question again.

Mr. McIntyre: In that event there is a place where you can take all the heat; if the reaction is bad, you will be in a position where you may have to take water a little. That won't be up to the President, because he's out of the country.

Mr. Hopkins: There are two things I do not want to say. The first is that there is no money; I have never said that; I do not want to say it now. And second, that this is being done on the President's orders; I never tell anybody that.

WCNS8

Mr Reynolds
remove the
minute
here out
here

ADMINISTRATOR HOPKINS PROMISED TODAY THAT THE GOVERNMENT WILL CONTINUE ITS BIG WORK-RELIEF PROGRAM, AND PLEDGED: "NO PERSON NEEDING RELIEF WILL BE DROPPED FROM WPA."

12/8--R523P

WCNS89

ADD RELIEF

ADMITTING THAT WPA IS PARING RELIEF ROLLS WHEREVER POSSIBLE AND ITS $1,425,000,000 FUND IS NEAR EXHAUSTION, HOPKINS SAID:

"NO RELIEF PERSON IN THE U.S. IS GOING TO BE DROPPED FROM WPA WHO IS IN NEED OF RELIEF."

HOPKINS' STATEMENT CAME AT A SPECIAL PRESS CONFERENCE CALLED FOLLOWING CONCERTED OPPOSITION OF THE U.S. CONFERENCE OF MAYORS AND ORGANIZED RELIEF WORKERS TO A STATEMENT BY DEPUTY WPA ADMINISTRATOR AUBREY WILLIAMS THAT RELIEF ROLLS WILL BE PARED BY 425,000 PERSONS.

HOPKINS SAID WPA HAD ORDERED THESE REDUCTIONS:

1. TRANSFER OF 250,000 MIDWESTERN DROUGHT VICTIMS FROM WPA TO THE R.A., PLACING THEM ON FEDERAL DOLES.

2. WPA IS "REVIEWING CAREFULLY" ALL NON-RELIEF AND ADMINISTRATIVE JOBS ALL OVER THE COUNTRY, ELIMINATING EMPLOYES WHEREVER POSSIBLE.

3. DROPPING RELIEF ROLL WORKERS "WHO, SINCE THEY HAVE BEEN ON WPA, HAVE DEVELOPED OTHER SOURCES OF INCOME."

WILLIAMS HAD ESTIMATED THAT REDUCTIONS IN THE LATTER TWO BRACKETS WOULD EFFECT 175,000 PERSONS DIVIDED: 150,000 RELIEF CASES, 20,000 NON-RELIEF WORKERS AND 5,000 ADMINISTRATIVE EMPLOYES.

HOPKINS SAID FLATLY THAT THOSE FIGURES WERE NOT DEFINITE, THAT WPA CUTS WOULD BE MADE ONLY WHERE POSSIBLE AND THAT NO DEFINITE REDUCTIONS HAD BEEN ORDERED.

HOPKINS RELEASE A FORMAL STATEMENT SHOWING THAT RELIEF ROLLS ECLINED 104,510 PERSONS FROM NOV. 7 TO NOV. 28. WPA WAS EMPLOYING 2,582,552 INDIVIDUALS ON NOV. 7 AND 2,478,042 ON THE LATTER DATE.

12/8--E532P.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, December 7, 1936.
12/5/36

Press Service
No. 9 - 4

Secretary of the Treasury Morgenthau is today offering for subscription, at par and accrued interest, through the Federal Reserve banks, $700,000,000, or thereabouts, of 13-17 year 2-1/2 percent Treasury bonds of 1949-53, and at the same time is offering an additional amount of the new Treasury bonds and an issue of 5 year 1-1/4 percent Treasury notes of Series C-1941, both on an exchange basis, par for par, and in payment of which only 2-3/4 percent Treasury notes of Series B-1936, maturing December 15, 1936, or 3 percent Treasury notes of Series C-1937, maturing February 15, 1937, may be tendered.

The Treasury bonds of 1949-53 now offered for cash, and in exchange for Treasury notes maturing December 15, 1936, and February 15, 1937, will be dated December 15, 1936, and will bear interest from that date at the rate of 2-1/2 percent per annum payable semiannually. They will mature December 15, 1953, but may be redeemed at the option of the United States on and after December 15, 1949.

The Treasury notes of Series C-1941, now offered only in exchange for Treasury notes maturing December 15, 1936, and February 15, 1937, will be dated December 15, 1936, and will bear interest from that date at the rate of 1-1/4 percent per annum payable semiannually. They will mature December 15, 1941, and will not be subject to call for redemption before that date.

The Treasury bonds and the Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds and Treasury notes, respectively, now outstanding. These provisions are specifically set forth in the official circulars issued today.

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.

With respect to cash subscriptions for the bonds, 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; and cash subscriptions from all others must be accompanied by payment of 10 percent of the amount of bonds applied for. With respect to exchange subscriptions, either for the Treasury bonds or for the Treasury notes, such subscriptions should be accompanied by a like face amount of either 2-3/4 percent Treasury notes of Series B-1936, maturing December 15, 1936, or 3 percent Treasury notes of Series C-1937, maturing February 15, 1937, both of which will be accepted at par, and with respect to the notes of Series C-1937 accrued interest will be paid to December 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. All subscriptions will be received subject to allotment and subject to the reservations set forth in the official circulars. Subject to such reservations, exchange subscriptions will be allotted in full. Payment for any bonds or notes

allotted must be made or completed on or before December 15, 1936.

In order to provide an equitable allotment and distribution of the bonds offered for cash among all classes of subscribers, all banking institutions and others concerned are again urged to cooperate in the manner outlined in the letter of May 27, 1936, addressed by the Secretary of the Treasury to the President of each Federal Reserve bank, and made public at that time.

The amount of Treasury notes of Series B-1936 maturing on December 15, 1936, is $357,921,200, and of Series C-1937 maturing February 15, 1937, is $428,730,700, any of which may now be exchanged for the Treasury Bonds or the Treasury notes now offered. Treasury bills to the amount of $400,377,000, and interest on the public debt to the amount of about $138,000,000 are payable on December 15, 1936.

The texts of the official circulars follow:

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1949-53

Dated and bearing interest from December 15, 1936 Due December 15, 1953

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER DECEMBER 15, 1949.

Interest payable June 15 and December 15

1936
Department Circular No. 572

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, December 7, 1936.

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 2-1/2 percent bonds of the United States, designated Treasury Bonds of 1949-53. The amount of the offering is $700,000,000, 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 B-1936, maturing December 15, 1936, or Treasury Notes of Series C-1937, maturing February 15, 1937, are tendered in payment and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated December 15, 1936, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable semiannually on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1953, but may be redeemed at the option of the United States on and after December 15, 1949, 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 by payment of 10 percent of the amount of bonds applied for. 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, subscriptions in payment of which Treasury Notes of Series B-1936 or Treasury Notes of Series C-1937 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 December 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 depositary 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 B-1936, maturing December 15, 1936, will be accepted at par in payment for any bonds subscribed for and allotted. Treasury Notes of Series C-1937, maturing February 15, 1937, with coupon dated February 15, 1937, attached, will be accepted at par in payment for any bonds subscribed for and allotted, and accrued interest on the maturing notes from August 15, 1936, to December 15, 1936, ($9.94565 per $1,000), will be paid following acceptance of the notes. Payment through surrender of Treasury Notes of Series B-1936 or of Series C-1937 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.

UNITED STATES OF AMERICA

1-1/4 PERCENT TREASURY NOTES OF SERIES C-1941

Dated and bearing interest from December 15, 1936 Due December 15, 1941

Interest payable June 15 and December 15

1936
Department Circular No. 573

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, December 7, 1936.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 1-1/4 percent notes of the United States, designated Treasury Notes of Series C-1941, in payment of which only Treasury Notes of Series B-1936, maturing December 15, 1936, or Treasury Notes of Series C-1937, maturing February 15, 1937, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series B-1936 and of Series C-1937 tendered and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated December 15, 1936, and will bear interest from that date at the rate of 1-1/4 percent per annum, payable semiannually on June 15 and December 15 in each year. They will mature December 15, 1941, and will not be subject to call for redemption prior to maturity.

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

3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the

Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of $100, $500, $1,000, $5,000, $10,000 and $100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon 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, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for notes allotted hereunder must be made or completed on or before December 15, 1936, or on later allotment, and may be made only in Treasury Notes of Series B-1936, maturing December 15, 1936, or in Treasury Notes of Series C-1937, maturing February 15, 1937, which will be accepted at par, and

should accompany the subscription. In the case of Treasury Notes of Series C-1937 tendered in payment, coupons dated February 15, 1937, must be attached to the notes when surrendered, and accrued interest from August 15, 1936, to December 15, 1936, ($0.94565 per $1,000), will be paid following acceptance of the notes.

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 notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, December 8, 1936.
12/7/36

Press Service
No. 9 - 6

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2-1/2 percent Treasury Bonds of 1949-53 closed at the close of business Monday, December 7, 1936, for the receipt of cash subscriptions.

The subscription books for the bond offering and also for the offering of 1-1/4 percent Treasury Notes of Series C-1941 will close at the close of business Wednesday, December 9, for the receipt of exchange subscriptions, in payment of which Treasury Notes of Series B-1936, maturing December 15, 1936, or Treasury Notes of Series C-1937, maturing February 15, 1937, may be tendered.

Cash subscriptions placed in the mail before 12 o'clock midnight Monday, December 7, and exchange subscriptions placed in the mail before 12 o'clock midnight, Wednesday, December 9, 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, December 11.

—oOo—

December 8, 1936.
11:35 a.m.

H.M.Jr: Hello

Operator: Dr. Burgess.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello

Burgess: Hello

H.M.Jr: Hello

B: Hello sir.

H.M.Jr: How are you?

B: Pretty well.

H.M.Jr: Good.

B: The - ah - things have been happening here this morning.

H.M.Jr: Such as.

B: Ah - the - they've interpreted that announcement as a little bearish on the bonds.

H.M.Jr: Yes.

B: So the bonds have been selling down a little. The bonds are selling par at 30 to 101.

H.M.Jr: Yes.

B: And the notes are selling 1-3..

H.M.Jr: Ah-ha.

B: ....with the rights 2-4.

H.M.Jr: Yes.

B: That makes the note just a shade more attractive.

H.M.Jr: Yes.

B: To offset that a little bit we've been doing some of our converting by selling some rights and buying some bonds.

H.M.Jr: Good.

B: Some of the shorter bonds.

H.M.Jr: Oh.

B: And that is gradually strengthening the bonds up a little bit I think.

H.M.Jr: I'd like to buy some of the new bonds if you'd let me.

B: Would you?

H.M.Jr: Sure.

B: All right we can do that.

H.M.Jr: Of the new bonds.

B: How much would you like?

H.M.Jr: Oh I'd be delighted to take 10 million.

B: All right, I can get some for you.

H.M.Jr: I mean I'll take them as long as they're below 101.

B: Anything below 101.

H.M.Jr: Yes.

B: Very good.

H.M.Jr: Ah - see what you can do and call me back.

B: All right.

H.M.Jr: I'll take - now let's see - does that mean I'll have to give half to the Federal or will they be separate.

B: Ah -

H.M.Jr: Supposing - supposing we buy them and then you can decide afterwards.

B: All right - all right. We can buy them.....

H.M.Jr: Because this would be sort of separate, wouldn't it?

B: I think it would be separate because we've got this other operation.

H.M.Jr: I think it would be separate. Let's consider it separate.

B: Yes, yes.

H.M.Jr: See?

B: All right, yes.

H.M.Jr: Now I'd be delighted to buy 10 million at - below 101.

B: All right, I'll put that right in.

H.M.Jr: Will you? Then call me back?

B: First rate, yes.

H.M.Jr: Thank you.

December 8, 1936.
11:50 a.m.

H.M.Jr: Hello

Burgess: Hello sir.

H.M.Jr: Yes.

B: Well I've got an order in. I don't think we'll get much. I find there's a 31 bid out there anyway.

H.M.Jr: Yes.

B: But we may get something.

H.M.Jr: Ah-ha. You don't think it will work, huh?

B: Well I don't think we'll get much. But I think it's just the thing to do to have a bid there and take them at - under 101 anything we can get it.

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

B: Now of course the way the thing is now there is a little advantage to exchanging into the notes.

H.M.Jr: Yes.

B: But I think it's better to leave that than to try to force it. This - this thing will tend to keep it evened up and what we're doing will tend to even them up and I think before the day is over they may even up again.

H.M.Jr: Well - ah - my hand was forced last night.

B: I see, yes.

H.M.Jr: Because they - they got a wrong twist on it you see?

B: Yes I see.

H.M.Jr: I found that they were going to write an incorrect story and rather than have them write an incorrect story I thought the best thing was to give them...

B: Well I think it's all right.

H.M.Jr: But a couple of smart boys - I mean they were going out with the wrong information.

B: I'm glad to throw a scare into some of these fellows who oversubscribed a little bit.

H.M.Jr: Yes and then rather than that I said I'll give you the whole facts.

B: Yes. Yes. Well that's always the same procedure when you get in a jam, isn't it?

H.M.Jr: Yes, I think so.

B: The right formula.

H.M.Jr: My mother used to teach me.

B: Mine taught me too. (Laughs)

H.M.Jr: All right. Goodbye.

B: All right.

December 8, 1936
12 Noon

Present: Mr. Haas
Mr. Oliphant
Mr. Opper
Mr. Taylor
Mr. Gaston
Mr. Seltzer
Mr. White
Dr. Viner
Mr. Lochhead
Mr. Bell
Mr. Upham
Dr. Goldenweiser
Mr. Eccles

H.M.Jr: What I was just explaining to Governor Eccles was this - that for the last two weeks here, strictly within the Treasury, we have been working on this matter of gold. We have been looking at it from this angle. Gold that is coming in: can we handle it? Can we become the master of the gold instead of the servant of it? And so that we can isolate it from our domestic economy and not have it dominating the whole thing. Now, we have worked out a device for that, and everybody in this room has something to do with it - of how this thing can be handled. As I told Governor Eccles, we only cleared it at 9:30 last night. Now, what I want to do is to present it to you and then you've got time to cross-examine us and then take it back to your own shop and study it. I needn't say that I want to keep it just as quiet as possible. But we are satisfied ourselves that this is the best way of handling gold that is yet to come in, and also newly-mined gold in the United States, the two together: the newly-mined gold and the gold that is yet to come in. I'm not talking about gold which is already in the country. Just that one kind of method.

Haas, have you got a paper? If you will read it - and then, as I say, it's all in the family and you fellows - it's taken us two weeks to understand, so I don't expect you to understand it in two hours; if you do, you're that much better than we are. But it's - now they've got it down on one page, it's so I can understand it.

Haas: I have several copies. It might be well to pass it around. (Distributes copies)

H.M.Jr: I might say that - I'll let Haas read this thing and - personally I want to say this before we get to it. I am tremendously enthusiastic over this. It is a great weight off my shoulders. But the thought - I mean if you want to do something - I mean people say, "What's the use of raising excess reserves? Another 500 million dollars worth of gold comes in and we're just as badly off as we were."

Eccles: That's right.

H.M.Jr: I don't know of anything that's come along that's cheered me up as much as this solution.

Haas: "Sterilizing Future Acquisitions of Gold.

"The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

A. The Fund would buy all imported gold.

B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.

C. The Treasury would obtain such funds by increasing the amount of Treasury bills sold to the market.

"An illustrative example of the detailed operation of a transaction is as follows:

(a) X, in New York, imports $50,000,000 worth of gold.
(b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
(c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays X for gold by issuing its cashier's check.
(d) X deposits check in its member bank.
(e) Member bank deposits check with Federal Reserve Bank, receiving credit in its reserve account, thus increasing excess reserves.

(f) Amount of Federal Reserve Bank's check is charged to account of Stabilization Fund (Secretary's special account).
(g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal Reserve Bank.
(h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
(i) At selected dates the Treasurer's account with the Federal Reserve Bank will be replenished by the sale of Treasury bills to the market in amounts sufficient to compensate for the purchase of gold during a given period.
(j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal Reserve Bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

"Note 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than $50,000,000 in bills could be sold.

"Note 2: Any purchase of gold increases bank deposits. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to Federal Reserve Banks to the extent of such deposits."

H.M.Jr: Well, the meeting is yours, Marriner, so go ahead.

Eccles: As I understand this, it of course would increase the Government debt to the extent of the bills sold.

H.M.Jr: Sure.

Eccles: It would be equivalent to the operation of the British - the way the British operate their fund. In other words, you would get money from the market and with that money that you'd get from the market you would take the - you would buy gold; thus you

would neutralize the effect of the gold imports so far as excess reserves were concerned, with the exception, of course, that gold imports do increase deposits. And in this Note 1 you suggest a method here of - "Should it be desired exactly to equate this, slightly less than some amount of bills could be sold." That, of course, would, as you say, equate the effect.

The Treasury would offset the effect of the deposits by transferring the - by carrying larger amounts of the Treasury balances with the Reserve Bank to offset the increase in deposits of the banks brought about by gold imports.

Now, of course, that could operate in just that way so far as both gold imports and gold exports were concerned, and thus you could - you could freeze, we'll say, the present situation, so far as the present amount of excess reserves are concerned. Looking to the future, after such an arrangement as this went into effect, excess reserves would no longer then be created as a result of gold imports, and neither would the reserves be affected as a result of gold exports out, except they went to a point beyond what the present excess reserves are. In other words, if we should, after you took in, say, 250 million of gold imports, and then we had an exportation of a billion of gold - if you sold, or rather if you bought bills in the market to the extent of a billion instead of the 250 million, of course, you would then affect - it wouldn't be equivalent to freezing the present status.

Now, I don't know whether you followed that point, whether, in consideration of that, you had taken into account that both imports and exports would be frozen at this point and your action would deal with the effects in and out from a certain point. Do you see?

That, of course, would leave the Reserve position - the Reserve Board in a position to deal with a known situation. Of course, gold imports and exports in the last few years have been very abnormal, and have not reflected the normal exchange

of goods and services. They have been a result of huge capital movements, first from this country abroad, and then back to this country, and then foreign capital into this country. I can conceive of a situation where, if we had stabilization over a substantial period of time - where the movement back and forth may be a seasonal gold movement, which - under those circumstances, the central bank should deal with that type of gold movement, which would be more or less of a temporary adjustment in and out to meet the seasonal fluctuations and would merely reflect the normal exchange of goods and services. I can conceive of a situation where it may not be desirable to sterilize the effect of gold imports or the effect of gold going out. It is the abnormal movement - what we term these capital movements, which have no relationship to the normal movement as a result of an exchange of goods and services between countries - that is the upsetting feature. I don't know whether this problem could be dealt with merely from the standpoint of sterilizing the effect of these capital movements, free from what we may term the gold movements - the seasonal movements in and out as a result of a normal international business activity. I don't know whether you follow that aspect of it.

Now, as I conceive of the operation of the central bank, under a normal situation where you don't have these abnormal movements of capital, it should have discretionary power as to - it may be a situation where it would not be desirable to sterilize either an outflow of gold - I mean to offset an outflow of gold, or sterilize an inflow of gold. Of course, the situation - it is difficult to imagine at the moment that situation, but at least if we look back and as we look ahead we hope to get this international stabilization worked to a point where confidence will develop in all of the important currencies, and thus the movement back and forth would reflect only this - what we may term the normal activity; and in that case, it seems to me that it should be dealt with by the central bank because it after all is a part of the central banking function. I mean that is - maybe - I'd like to hear Dr. Goldenweiser's - what you have to say.

Golden.: My feeling about this statement is that it is very much along the lines of what we'd like to see done, as an offhand reaction, because the - As the Governor says, though, we may want to have freedom of allowing gold to have its influence or not. But that is not an immediate contemplation. And this, of course - you are still making it on a 24-hour basis; if the situation becomes entirely different, you'd change this procedure.

I think that if the Treasury is willing to assume the burden of an increased public debt in order to neutralize that gold inflow - I think that is the very best way of handling it that we could think of.

I had a question about this second note.

H.M.Jr: We've got - we've set aside all the time - we've stopped everything, so please - I mean if you don't have a half dozen questions I'll be disappointed.

Golden.: Why, I have one to begin with. It is about the second note, about the deposits.

H.M.Jr: May I just interrupt on that. That's thrown in. I haven't thought that thing through, and we just threw it in because, frankly, Professor Williams was down here as a Harvard professor, at our expense, and he raised that point. So we put it in as a note. Everything except the footnote has been carefully thought through and we are willing to act on it. We haven't crossed that bridge. But I want you to ask your questions. May I say one other thing before you do. This thing here - Will you hold your thought a minute?

Golden.: All right.

H.M.Jr: It demonstrates to me how important it is that once a week, at least, we get together. For instance, let's say we do this thing and then before we decide each week - I don't know what day Bell does it, but on a certain day Bell will decide, whether it is Thursday or whether it is twice a -

Bell: Mondays and Thursdays.

H.M.Jr: Well, Mondays and Thursdays he makes his calls. Well, I think in connection - when he makes this thing, where he's going to draw the money and where he's going to deposit, that we could decide about this, whether you want us to increase your deposits in the System or decrease them. We'd consult each other, and that's the only way this thing could work.

I didn't want to stop you, but I wanted to explain - but I think when Bell makes up his mind what he's going to do in connection with what your problems are and our problems are, these things ought to be - once a week they ought to be checked, and I'm sure we can have a meeting of minds on these things: What direction are we moving? What's your objective? What's our objective?

But the thing that's bothered me so much is that this darn gold is our boss and we can't - we've got to do what this gold does. And then the other thing, the fear that the people have that some day you're going to see a billion dollars go out. Well, if this thing is fixed up this way we can laugh at it.

I mean - I didn't want to stop Goldenweiser, but I wanted to make that short statement.

Eccles: Go ahead (to Goldenweiser).

Golden.: You had something you wanted to say, Governor?

Eccles: Well, you go ahead and finish your thought.

Golden.: I was going to ask about these deposits, the part that the Secretary says hadn't been thoroughly assimilated.

Oliphant: Put in to show we hadn't overlooked it.

H.M.Jr: That's right.

Taylor: We had a lot of discussion about it and - well, that's exactly it, just to show that we realized that it did have an effect. Didn't have any conclusion.

Viner: I don't think you can do One and Two at the same time. They are inconsistent.

Golden.: Well, One and Two are inconsistent; that is true. But the question I had in mind was would the Treasury then be willing to build its reserves, its deposits with the Federal Reserve Banks, indefinitely as much as gold comes in?

Eccles: That is just the point I was going to raise. It seems to me that this program will be effective so long as the amount of gold coming in doesn't get excessive. If it continues to an extent of another billion or two, we'll say, then of course the possibility of offsetting the deposit influence just becomes impossible or impractical.

The deposit effect of it could be offset by the Treasury transferring its deposits from the banks to the Reserve Banks to the extent that they had sufficient deposits. But you're going to naturally reach a point when you have a balanced budget here in the near future, where you are not going to feel justified in carrying a billion dollars or so of a minimum deposit. At tax periods you may have half a billion deposits; but even then, with your bills maturing at tax periods, it would seem to me that it would be unnecessary and possibly inadvisable to carry the huge deposits that have been necessary and desirable with the condition of an unbalanced budget.

Therefore, it seems to me we can't take - we can't give much consideration to the effect of offsetting the deposit increase. It is minor and it will apply for a short time.

H.M.Jr: I - Notes One and Two - I want to again say that I personally haven't thought One and Two through. They were given to me late last night. But we thought it should be there just to show you we haven't overlooked it.

Golden.: It is interesting. I think Number One is relatively unimportant because it is only a matter of

the extent to which the reserve requirements increase with additional deposits.

I think from the point of view of the Federal Reserve the thing that is perhaps the most important to us is that the Treasury actions should be in this connection, after the policy has been determined and agreed upon - that they should be practically automatic; that it wouldn't be a case where at some time, on some occasions, the gold is offset and on other occasions it isn't offset. If the Federal Reserve authorities have the assurance that this would be carried out as an automatic proposition every time, then the Federal Reserve can adapt its attitude toward its own responsibilities to that assurance. The thing that would be upsetting to the Federal Reserve authorities is if there was a lot of discretion left in this arrangement. That is - isn't that right, Governor?

Eccles: Yes, that's right.

Golden.: Because that then would take over the open market functions of the Federal Reserve System.

Eccles: As I understood, this would be more or less automatic.

H.M.Jr: Well, to this extent -

Eccles: I understood it would be practically automatic.

H.M.Jr: I wouldn't want to commit the Treasury to anything in the monetary field indefinitely.

Golden.: No.

H.M.Jr: But what I'm thinking about is that we do make this thing - the very fact that - well, Bell has worked out a way and we expect to actually show the gold in the statements.

Golden.: Show it?

H.M.Jr: What do you call it?

Bell: Inactive Gold.

H.M.Jr: Inactive Gold. We are actually going to print it every day.

Golden.: Yes

H.M.Jr: Now, when we commit ourselves to publishing those figures -

Golden.: Yes

H.M.Jr: The thing that I am trying to do in this whole thing is to add another pillar of stability to the picture.

Golden.: Exactly.

H.M.Jr: And just as long as people don't know how we are going to master this thing, then you worry, I'm worried; but - and the only thing that I can see when it won't be automatic would be if Mr. Eccles would say, "Well now, I need a little more gold in the System because we're low," or if I might say, "I'm a little worried," and I'd go over and see him. And then he'd call on us to let a little gold go into the lifeblood of the System - which might perfectly well happen. I mean he might need three or four hundred million.

Golden.: Little hard to anticipate at this time.

Eccles: That would be true, if we got to, as I said, a condition of normality.

H.M.Jr: A balanced budget.

Eccles: A general world stability in currencies. Then we could say that you should permit such gold that may come in seasonally to have its influence on the domestic picture.

H.M.Jr: Well, even -

Eccles: Of course, that's something in the indefinite future. Possibly, too, that such gold as may go out seasonally should have its influence.

H.M.Jr: But the thing we are trying to do here is to remove

this thing from the position of influence which it has today, which it shouldn't have, both as it comes in and as it goes out.

Golden.: Well, I think it is a splendid solution.

Eccles: I think it's a splendid solution to the problem.

H.M.Jr: It's just worried me to death. We've been the master of it and I want it to be our servant - I mean gold has been our master and I want it to be our servant; and if we move this thing, then by golly you fellows can function.

Eccles: Yes, this would - I've said -

H.M.Jr: It must worry you.

Eccles: I've said a good number of times that all we are dealing with here - dealing with excess reserves through open market or increasing reserve requirements, is dealing with an effect that is created as a result of these capital imports. Let's get at the causes of this thing, because we can keep on forever and if we don't know where we're going, just keep on dealing with effects, we'll run out of power to deal with them here.

And we have this practical problem: that you can increase reserve requirements of the member banks up to a certain point; but go beyond that and you're going to drive a great many of them out of the System, unless we get legislation that is going to force membership, which we don't have and which we ought to have, by the way. But certainly you are going - you can't increase reserves of the banks, especially the smaller banks, to a point where those banks say, "Well, hell, if we weren't members of the Reserve System, we'd have these reserves free to do as we please." Therefore, we would lose control over the expansion of credit by not having them in the System if we increase reserves much more.

Now, that's the problem we are up against today; so that if we can find some other way of sterilizing this thing than we have with the power to increase reserves, with the securities in the System account,

we can deal with the present situation. But if we are going to get another billion or two gold, then we'd - we just can't deal with it. We've simply got to - we've got to get some fundamental changes in the banking legislation. That's just where we are.

H.M.Jr: Well, let me - may I ask Goldenweiser: do you know - has there come to your attention any better device than this one?

Golden.: No, this is very much the best device, very much the best device. The only reason we have hesitated about counting on that device is because it does involve the increase in public debt for the purpose of carrying a dead asset, which - from our point of view, those of us here who know what it means to the nation's welfare, it's all right, but we felt that it may be something that may be a little difficult to sell to the public and to Congress. But if you feel that you can handle that part of it, I think it is very much the best plan that can be devised.

H.M.Jr: Well, personally I'd much rather go on the stump, if I had to, to explain that, than I would to try to explain the existing situation, if the public really understood it.

Golden.: Especially at the rates at which you can borrow money, it isn't going to cost you very much.

H.M.Jr: We can borrow a billion dollars for a million and a half to two million dollars.

Golden.: I think it is splendid. I have no criticism of it whatsoever.

H.M.Jr: Well then, let me ask you this. Without committing yourselves - let's say that you have - after you have had a reasonable time to study this thing - what do you want, a couple days?

Eccles: Yes, a couple is plenty.

H.M.Jr: You are feeling - I mean let's say at the end of a couple days - what's today, Tuesday?

Eccles: Yes

H.M.Jr: Let's say Thursday noon. Is that rushing you too much? I mean some time Thursday, or - ah - Friday; I mean I don't want to rush you too much.

Eccles: Only one thing - I agreed to go down to Richmond Thursday; I'll be out of town all day. Could you give us until this Friday?

H.M.Jr: Sure, sure.

Eccles: All right. I'll be out of town one day.

H.M.Jr: All right, let's say that Friday you come in.

Eccles: Fine.

H.M.Jr: Now I'd like to get - ask you - get your reaction. Is this something that you'd like to have us do at once or would you like to have us postpone it, and if so how long?

Eccles: I see no - I see no reason to postpone it, unless there's some reason to believe that gold imports are likely to stop.

H.M.Jr: No reason to believe that.

Eccles: I was just going to say, if we get - if we reach the point where we feel it might not be necessary, if we think there is that possibility, then there may be some justification for delaying it. But I see no reason otherwise.

Viner: Would you include domestic gold in the arrangements?

Eccles: Yes. That's just as bad as the other. Not only that, I wish you'd consider silver while you're at this.

Oliphant: That's it - that's what Viner was waiting for.

Taylor: Viner and Jeff Coolidge.

Oliphant: That's right. There's a committee; Jeff is chairman, and Wayne and Viner are on the committee.

Eccles: Well, you can put me on the committee too. I'm from a silver state that ranks first. Now I - you

can see that -

Lochhead: Well, he doesn't care as long as you pay him the 77 cents on it.

Eccles: - that I'm not -

H.M.Jr: Did you hear what he said?

Eccles: I got that. No, I don't even care about that. I'm sore as hell - I got a lot of fellows out in those silver mines and every damn one of them voted against the Administration. Now, as far as I'm concerned you can cut them off.

H.M.Jr: Well now, listen, before we get on silver, which I'd just as leave touch on, I want to ask Goldenweiser as to the timing of this thing.

Golden.: Well, I see no reason, Mr. Secretary, offhand -

H.M.Jr: I know - you can wait until Friday.

Golden.: But off the bat I can see no reason why you couldn't put that into effect tomorrow and it would be all right, be just as well as any other time, because there's no startling change going to happen in the situation that we can possibly anticipate - or - whether the King marries Mrs. Simpson or not.

I think gold is going to keep on coming in. It is interesting that since the President's first statement about this foreign capital coming in, there has been very much less; there has been since that time - only a small amount has come in, and this last week there's actually been a loss on balance. But I - this is a temporary situation. I think that gold is pretty sure to keep on coming. Just now it is coming in because Argentina is paying off some bonds.

H.M.Jr: 45 million.

Golden.: Yes, and it is going to keep on coming, and I think chances are that gold will keep on coming here for quite a long period, and I don't see any reason that

it would upset anything if you put that into operation at once.

Eccles: Well now, in connection with this, I am concerned about the deposit effect and the impossibility of offsetting that with the transfer of Treasury balances. Now, if we add a couple of billion dollars more in the next year or year and a half to our deposits through gold imports, it makes it very difficult to control your inflationary development because those deposits get into velocity, into circulation, and with the present deposits that we have, which are something like four billion more than they were in '29 - I am speaking of the net demand deposits, which of course are what you've got to - the way you've got to measure your supply of the means of payment, that plus your currency; with an increase in velocity, and we are getting an increase - we can get plenty of recovery without any more, without any further addition to the deposit supply.

Now, if we get that further addition through gold imports, even though you sterilize the excess reserve effect, or you get it through silver purchases and you can sterilize the excess reserve effect of those, you have added to your deposits.

Now, of course, deficit financing to the extent that is done by the banks also adds deposits, but it really decreases reserves slightly.

But the thing that worries me is this constant increase in deposits, and then with that volume getting into velocity we can have a real inflationary development here. That is, there is a possibility of one, and that then can only be offset by a surplus Treasury fund, that is, by surplus beyond Treasury expenditures, and retiring with that surplus their bills and notes, which are largely held by the banks. That, in turn, would of course reduce the deposits and would act as a very effective control. But it certainly - over the period of the next two years you can't expect to be able to retire very many - very much of the Government debt; therefore, you can't depend upon reducing the deposits through that means.

Gaston: Sale of your bills keeps up your deposits to the extent that they are increased by the gold imports.

Eccles: No, no, that doesn't affect deposits, only the reserves.

Viner: You don't sell them to the public. You sell them to the banks, and they create a reserve which offsets deposits.

Eccles: There is no net effect on deposits, only on reserves.

Viner: But in a case of an emergency of the sort you are picturing, remember there still is another resort to fall back upon, and that is the Treasury increasing its cash balance for that purpose.

Oliphant: And 24 other ways too.

Viner: Yes, other ways too, aren't there?

Eccles: Well, that's true, the Treasury could increase its balances. It could borrow money from the market and of course hold those funds.

Viner: In extension of this, but not tied up with gold.

White: From the Governor's point, directing attention to the cause of these imports -

Eccles: That's what I'm getting to, that's right. I'm getting to the cause of these imports. I'm not in very much sympathy with permitting this free movement of capital that has little or no relationship to the exchange of goods and services, and that doesn't serve any public interest. It really is providing a mechanism, through the Stabilization Fund, a means whereby a comparatively small group, in the aggregate of the people of the world, can transfer their funds out of one country into another country, and vice versa, and they have a repercussion.

Take the English situation. Now, to the extent that capital is continually moved out of England,

it can only have one of two influences. Either the pound will sooner or later have to go down so as to stop the movement of capital out, which would create a bad condition in this country; politically the people would say that "we've been sold down the river" and there would be the demand for further devaluation to meet it, which is an undesirable situation to permit to develop here - or the British would have to raise the discount rate very substantially in order to hold capital there; that, in turn, might cause a deflation to develop, and it is a thing that they are not likely to do with the present armament program under way.

Therefore, it is certainly to the interest of Britain to do something about it. They should be glad to cooperate in doing something to prevent capital from coming here. We, in turn, don't want the capital here, because it adds to these deposits; it creates an abnormal speculative activity in securities and real estate and commodities of all kinds, which make for instability rather than stability.

And then, again, there is always the danger when that foreign capital, together with some American capital too, may feel that "this is the time to cash in" and transfer somewhere else; then that upsets our situation here.

I'd like to see us deal with this thing - well, when we want to stop goods coming in, we put up tariffs, we attempt to control them. Yet, we expect to prevent a free movement of speculative capital back and forth; we set up our stabilization mechanism so as to accomplish it without having a repercussion on the stability of our currencies. But, as I conceive of the stabilization operation, it can only iron out the intermediate bumps, and it can't meet a situation that continues a large flow of capital from one country to another over a period of years. And there is every reason, it seems to me, to expect that the British capitalists, in their own interest and not in the interest of the British economy, may attempt to cash in over there and come over here and put their capital over here, when we don't want it, when it creates a difficult

problem and an undesirable situation for us.

H.M.Jr: Excuse me. I just have to tend to one thing. I'll be right back. Before I go, there's just one thing. One of the reasons why we are anxious to do this thing is we've got an awful lot of gold over in England; we've got more than I care to have there. As a matter of fact, we've got our 200 million dollar fund practically full of gold. And I'm very anxious to bring over the gold from England, more than I have any right to have there. And that is one of the reasons why I'm rather anxious to do this thing.

Golden.: But that gold is - has already had its effect on reserves.

Eccles: But you want it for other reasons.

Golden.: You want it for safety.

H.M.Jr: For safety. After all, they tell me that from the time German planes pass the Belgian border, it's 44 minutes till they get to London, just 44 minutes. I feel a little uncomfortable with 120 odd million dollars there in London and I'd like to bring it back.

Oliphant: Such an action would be disturbing if something of this sort hadn't been done.

Golden.: You mean psychologically.

H.M.Jr: And if I bring it back, the English are going to say, "Why?" "Well, we've got a new policy." I mean it's a new policy and that's the answer to the British. "Are you worried?" "No, we're not worried."

Eccles: This gives you an excuse.

H.M.Jr: And that gives me a very good excuse, see? You might say, "Well, why is he in such a hurry?" I've got other reasons. I'll be back.

(Secretary goes out)

Oliphant: (To Eccles) Do you think there is a feasible mechanism for stopping these abnormal capital movements?

Eccles: I think we are all agreed that they are undesirable. It just seems to me that if we approach it with the idea that the emergency is sufficiently great that it's got to be done, then we can find a way. After all, it's very easy to argue why you can't do a thing, unless you feel the urgency is such that it can be done. And it does seem to me in this present situation that the emergency is such that something ought to be done within the next six months. We may have to have legislation, but I think -

Oliphant: That is, it's victimized us like it's victimized others. It's like a cannon loose on a wooden ship.

Eccles: We let these damn capitalists sit around the world here and we provide the mechanisms, by God, so they can shift their capital back and forth here and run the pound down and the dollar up, and the dollar down and the pound up.

Viner: And get income on it.

Eccles: And get income at the same time. And we've got the expense of taking care of the gold that we don't want.

Oliphant: Do you think there's a feasible method for stopping it, Marriner?

Lochhead: Of course, there's some defects in the British system too that make this possible.

Eccles: You can't deal with the causes in Great Britain. That's the difficulty - if we had some way of dealing with the causes in Great Britain. But we've got nothing to do with the causes. All we know is here we can deal with it so far as we are concerned, and we can ask them to cooperate, and suggest that they might consider the way of handling it that we advocate; but whether they will or they won't, that is entirely up to them.

But when I see - here we tax these fellows ten percent on their income. An American investor, so far as this country is concerned - he possibly will pay, if he is a small investor, at least ten percent; and if he is a big one, on his income he is paying 30, 40, or 50 percent. Then, if he makes a substantial profit out of his speculation, out of the appreciation of his purchase, he has to pay a capital gains tax.

Now, the Britisher - he can come over here, he can get an excellent return on his capital while it is here, he can pay a small tax on that earning while he holds it here; when he gets good and ready to take it out, we assure him of a method whereby he can get it out, and without any tax whatever on his capital. We have done everything to encourage and to invite the transfer of capital here. We have provided a stabilization operation whereby he can, with the greatest of ease, make his transfer both ways. And I say our tax situation also makes it doubly attractive.

And at the same time it puts our own capital in a position where, with the abundance of deposits seeking investment, we are getting interest rates - and I have been one of the strongest advocates for cheap money as a means of getting recovery; and at the same time I can see this, that if we get an interest rate that doesn't reflect the condition of the domestic economy at all, but reflects such a surplus of capital that doesn't belong to us as pressure on this market, and we get interest rates down to a level that over a long period of time cannot be justified and cannot be maintained, as a result of this capital here in competition for investments, then we are very unfair to our insurance companies and to our savings institutions. And with that capital then going out at the proper time, then up goes the rate, irrespective of your bank policy, because after all the long term rate is going to be more or less determined by the investment funds in the long term capital market.

And it seems to me the more you get into this thing, the more important it is that we deal with it. I

just think it's got to be dealt with, and until we do deal with it we're going to have plenty of worries.

White: The Federal Reserve Board and the Treasury and the S.E.C. are working on it; you know that?

Eccles: Yes.

White: You knew that.

(Secretary returns)

H.M.Jr: Well now, gentlemen, what I've done is - those of you who are going to have lunch - I've asked the heads of divisions to stay. That makes eleven; I had to stop somewhere. I think everybody knows who's invited. You (to Goldenweiser) stay in place of Mr. Ransom.

(To Eccles) Then you - you want to make a date now for Friday, or just want to call up and say yes or no?

Eccles: I'd like to make a date, because I think that there likely will be some -

H.M.Jr: Let's do it right now.

Eccles: - some questions as to detail, not questions as to principle, involved - questions as to detail that we might want to discuss.

H.M.Jr: Eleven o'clock all right, Friday?

Eccles: Couldn't be Friday afternoon, could it? My only thought was we have a regular Board meeting Friday morning, and -

H.M.Jr: Friday at three o'clock?

Eccles: - and I'd like to discuss some phases of this maybe with them.

H.M.Jr: 3:15?

Eccles: That would be better.

H.M.Jr: 3:00 or 3:15?

Eccles: 3:15, any time.

H.M.Jr: 3:15. What?

Eccles: That's all right.

STERILIZING FUTURE ACQUISITIONS OF GOLD

The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

A. The Fund would buy all imported gold.

B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.

C. The Treasury would obtain such funds by increasing the amount of Treasury bills sold to the market.

An illustrative example of the detailed operation of a transaction is as follows:

(a) X, in New York, imports $50,000,000 worth of gold.
(b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
(c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays X for gold by issuing its cashier's check.
(d) X deposits check in its member bank.
(e) Member bank deposits check with Federal reserve bank, receiving credit in its reserve account, thus increasing excess reserves.
(f) Amount of Federal reserve bank's check is charged to account of Stabilization Fund (Secretary's special account).
(g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal reserve bank.
(h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
(i) At selected dates the Treasurer's account with the Federal reserve bank will be replenished by the sale of Treasury bills to the market in amounts sufficient to compensate for the purchases of gold during a given period.
(j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal reserve bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

Note 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than $50,000,000 in bills could be sold.

Note 2: Any purchase of gold increases bank deposits. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to Federal reserve banks to the extent of such deposits.

GVO:BJ 12/7/38

STERILIZING FUTURE ACQUISITIONS OF GOLD

The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

A. The Fund would buy all imported gold.

B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.

C. The Treasury would obtain such funds by increasing the ~~weekly~~ amount of Treasury bills to be sold by an amount sufficient to equal the gold imported during the preceding week.

A more detailed statement of the operation of this plan is as follows:

(a) X, in New York, imports $50,000,000 worth of gold.
(b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
(c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays X for gold by issuing its cashier's check.
(d) X deposits check in its member bank.
(e) Member bank deposits check with Federal reserve bank, receiving credit in its reserve account, thus increasing excess reserves.
(f) Amount of Federal reserve bank's check is charged to account of Stabilization Fund (Secretary's special account).
(g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal reserve bank.
(h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
(i) Treasurer's account with Federal reserve bank will be replenished by sale of $50,000,000 Treasury bills, equivalent to transfer.
(j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal reserve bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

Note 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than $50,000,000 in bills could be sold.

Note 2: Any purchase of gold increases bank deposits. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to Federal reserve banks to the extent of such deposits.

Dec 8th 1934

December 8, 1936. ~~III~~

Following a meeting in the Secretary's office, at which Chairman Eccles and Mr. Goldenweiser were informed of the Treasury proposal to offset gold accretions by increased borrowings from the public, the following were the Secretary's guests at lunch.

Mr. Eccles, Mr. Goldenweiser, Mr. Viner. Mr. Oliphant, Mr. Taylor, Mr. Bell, Mr. Gaston, Mr. Lochhead, Mr. Haas and Mr. Upham.

Most of the luncheon discussion was good natured jesting and persiflage. Some of the matters involved were industrial loans by Federal Reserve banks in their relationship to decreased surpluses of those banks; stock ownership of the Federal Deposit Insurance Corporation; silver and its effect upon excess reserves as well as the possibility of transferring the administation of the Silver Purchase Act to the Federal Reserve system; ownership of the stock of Federal Reserve banks; compensating the Federal Reserve system for unused stock of old style Federal Reserve notes; revising the composition of the Boards of the regional Reserve banks and the measures which might be taken to prevent an inward movement of capital and increase in bank deposits.

C.B. Upham.

Let W. C. Taylor read.
and then file. HM J.

AIR MAIL

DELEGATION OF THE UNITED STATES OF AMERICA

Buenos Aires
December 8, 1936.

My dear Mr. Secretary:

During the time of the President's visit to Buenos Aires, the Minister of Finance of the Argentine Republic gave me a memorandum of which I am enclosing a translation and asked me to bring it to the personal attention of the President. This I did, and the President asked me to communicate the request contained in the memorandum to you personally for your consideration. The President told me that he would take the matter up with you himself upon his return to Washington and also expressed the opinion that he believed it possible for our own Treasury Department to be of assistance to the Argentine Government in the matter dealt with in the memorandum and in which the Argentine Government is peculiarly interested.

Personally, I feel that it would be tremendously helpful if it were possible for our own Government to interest itself in this question. It would be greatly appreciated by the Argentine Government and the result would be beneficial in connection with our general policy.

Believe me

Yours very sincerely,

Thomas Jefferson

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

(Translation)

MINISTERIO DE HACIENDA
DE LA NACION

MEMORANDUM

The American bankers in accordance with the advice of their lawyers have required of the Argentine Government for the conversion of a recently agreed upon loan the deposit of the sum of the total of the bonds in circulation before the due-date of the corresponding coupon together with the interest on these same bonds due six months after.

This means that the Argentine Government is obligated to pay double interest for a period of six months and interest on interest on whatever conversion operation it makes in the future in the New York market. The Ministry of Hacienda has repeatedly maintained, without having been able to convince the bankers nor their lawyers, that the total withdrawal of a loan through the payment of the bonds in circulation cannot be governed by the clause through which the normal amortization of this loan is made.

It is true that in the contracts for loans negotiated in the United States there are no clauses which provide for the total retirement of these loans at a set time. There are only deposits which give to the Government the privilege of increasing the amortization fund. The Government wishes to obtain that the increase of the amortization fund be not demanded six months ahead of time as the bankers are asking since this bars the realization of possible conversion operations in the North American market for these operations would become appreciably more expensive.

Future conversion operations which may take place in the New York market represent not only an economy for the Argentine budget. These must translate themselves also in a bettering of the conditions under which the Argentine-North American commercial interchange takes place since the lower sum of exchange assigned to (que se gire en concepto de)

service the public debt may be applied to the purchase of merchandise coming from this country.

In short, what the Argentine Government desires is that there be not applied, for the total retirement of a dollar loan, the clause which orders the deposit of the amortization funds six months before the withdrawal of the bonds.

Buenos Aires, December 1, 1936.

December 8, 1936
11:20 A.M.

An interview of the Secretary with ten students from Colgate University, Hamilton, New York, namely: Messrs. Pratt, Cudlipp, Becker, Adamsen, Stillman, Wratten, Moore, Foley, Lytle, and Galpin; Professor Paul S. Jacobsen in charge. Mr. Gaston also present. After being introduced to the Secretary by Mr. Gaston, Professor Jacobsen introduced to the Secretary each of the ten students.

* * * * *

Jacobsen: I think out of the ten men, Mr. Secretary, we have eight New Yorkers and a Jerseyite and a Pennsylvanian. I guess those states behaved themselves pretty well in the last election.

Gaston: How many farmers have you, Mr. Jacobsen?

J: I'll have to poll the class on that, Mr. Gaston. I don't know. Mr. Foley's father is a Professor at Colgate. Most of these men - their fathers are in business or law.

H.M.Jr: I see. Well now, will you explain to me what the class is and then what I can contribute, if anything.

J: Well, I'll explain to you what the class is and then you'll have to judge. We are here for a semester. Last year we did the same thing. We have classes at Brookings, meeting there for two hours in the mornings. Then we associate with men in administrative units on an observational basis and spending our time too in interviews and conferences to learn the staff service of administration and also learn policies of administration, in the last half of this course. These men are juniors. They are selected on the basis of their two year standing at Colgate of a "B" or better, and on the basis that they would work when they came down here, under my direction.

H.M.Jr: I see. I mean is this a course in government?

J: This is a course in government and administration. They get regular hours, 15 hours credit. Then they devote a commensurate amount of time, go back to the other sciences.

H.M.Jr: They do this for one semester?

J: For one semester, from September to the first of February.

H.M.Jr: With the thought that they will go into the Government?

J: With the thought that they may go into the Government. I think two or three are. Two or three men are taking law seriously; two men are down in the Justice Department because of that.

H.M.Jr: Have we any of them?

J: You have three here. You had three last year.

H.M.Jr: What sort of thing do they do here?

J: We work through Mr. McReynolds' office and Mr. Ballinger.

H.M.Jr: Mr. Ballinger? Do they go - do any of them do any of this Custom work for Ballinger?

J: They have planned their conferences so they would see the warehouses and also the Bureau of Engraving and the budgeting policies. I don't know how much time you gave to Customs.

Student: We have just studied the personnel set-up over there.

J: Didn't actually do any work in Customs?

Student: No.

H.M.Jr: Well now, would you men like to ask me some questions?

J: They have been able to ask me a great many, Mr. Secretary.

H.M.Jr: All right, go ahead. Got anything that you'd like to ask?

J: They don't know whether they'd like to ask you

questions of policy or not. Maybe they don't know just what they'd have a right to ask.

H.M.Jr: Well, they can ask anything they want to, and if I feel I can't answer it I'll say, "Well, I'm sorry, I can't. Just let it go at that."

1st Student: Do you think anything will come of the war debts now?

H.M.Jr: I don't think for the time being that there will be anything doing. I mean I'm not - I mean there was some talk over in France.

1st Student: Yes

H.M.Jr: Well, I'm not very hopeful of it. I don't think they've got the wherewithal to pay it. And the interesting thing is that when this thing came up the reaction among lots of people was that the very fact that these countries owe us is a pretty good insurance policy against their going to war, because if they can't borrow here they can't borrow practically anywhere, and if they did make the gesture of paying them now, then came in and borrowed, why, the money would go for munitions.

1st Student: What do you think about that law that was passed saying that a country that owed us war debts could not borrow any money?

H.M.Jr: The Johnson Act?

1st Student: Yes

H.M.Jr: I think it is one of the best statutes we've got on the books. I think it is an excellent -

Gaston: I think the boys should regard answers on questions as quite confidential, don't you think, Mr. Secretary? I don't know whether any of them write for papers.

J: We had one man last year that did, but none this year.

H.M.Jr: But this is - you're in the Treasury now.

J: We appreciate that, sir.

2nd Student: Mr. Secretary, I understand that a strong attempt is being made to balance the budget. Could you tell something about how far -

H.M.Jr: Well, it hasn't - that thing hasn't progressed far enough yet. I think the first hearing on that - the Post Office comes up this week and we come next week, and of course, as far as the regular departments go, that is comparatively easy; but the big question is this whole question of relief and nobody knows the answer to that yet. I mean we still have that with us and the whole question of balancing the budget is a relief problem, and up to date we haven't really made any real progress in knowing just how that is going to work out. Of course, for the immediate thing, it is pretty hard to do anything in the wintertime. That isn't the time we should do it anyway. We've got to do it slowly; can't do these things overnight. But that's been our - that's being asked all over the country: "What are you going to do about relief?"

J: That would justify the President's establishing two budgets.

H.M.Jr: Well, we never had two budgets. I mean we have an upper line where we show the regular departments, and the lower right below that, for the emergencies, and the two are totaled. We never had it. The thing is divided into regular departments and emergency, but the two things are totaled, and right at the bottom, if anybody can read, except Mr. Hoover, he would read that there is the total. I mean we do not keep two separate books.

G: Pardon - we have - what we have is a classification of expenditures according to what they are.

H.M.Jr: But we have never kept two sets of books, and the only time that there were two sets of books was in Mr. Hoover's time, when he set it up in the R.F.C. under his administration. But we never have had a double budget; but we do classify. And, of course, I don't suppose there is another country in the world that has a daily balance sheet like we do - certainly no business organization. But we have a daily balance sheet showing our

receipts and expenditures.

J: Mr. Secretary, is the Department particularly interested in the reorganization plan, especially in so far as it would affect the focal position of the Department?

H.M.Jr: Yes

J: I should imagine they would be.

H.M.Jr: Yes, they are. But on that thing - they want to keep that thing, naturally, very secret, because if Mr. Jones and Miss Smith get wind that they are going to be consolidated or transferred, they are immediately going to go and do everything they can to stop it - go to see their Congressmen or anything to keep the thing from happening. Now, our attitude on that is that we are taking the long distance viewpoint; and if they can convince me that by taking X Bureau away this is going to help the whole picture 25 years from now, we are going to have something better, why, I'm for it. I'm only here today, tomorrow, perhaps a year from now. There will certainly have to be coordination of the 35 independent agencies. Now, where they belong I don't know. But Mr. Brounlow, Mr. Gulick and Mr. Merriam are doing this thing very intelligently and I am very hopeful that something will come out of it.

J: You recall the hearing about 1920 when we made Mr. Willoughby appear before that joint committee who tried so hard to have a couple of the departments see the value of it. Now here we are doing the thing really scientifically.

H.M.Jr: Well, it is also - I think the only time new consolidations can be made is the second time you're President; then you can be scientific, but you can't be scientific the first time. The second time - the second time very scientific. You take in Customs, for instance. We have ten Collectors of Customs with offices in inland places. We have a fairly big office in Des Moines, Iowa. Why should we have a Collector of Customs in Des Moines, Iowa? But before election try to close that up; it's just impossible. Now we can be very scientific,

and if the Collectors spend half a million dollars too much on these inland offices, we've got a chance to get away with something. The only chance to do it is the second time, if the President has to decide.

3rd Student: Mr. Secretary, would you think that some system such as the British Treasury controlling every administration would work in this country?

H.M.Jr: I doubt it. They don't like anybody except the President over anybody else. I don't know that it would be wise. Here we have too much really. We've got all the possible responsibility that any human brain can handle, with this whole foreign situation and everything else, and I'd hate to see any more responsibility thrown on the Treasury. You've got just about all that you can assume and - I mean morning after morning I've got to get up at six o'clock in the morning and do my paper work at that time; night after night we have meetings at the house. I mean there's hardly a day that the day doesn't run fifteen, sixteen hours all day long. You just can't assimilate - the human brain can just about assimilate so much and be intelligent. And I think that's the thing you've got to watch on these consolidations. Don't throw too much on any one person. You've got a problem; whatever it is, it takes so long to understand; then you've got to go ahead, after you understand it, and put it into practice.

And then the trouble around here - I mean with recovery, relief, and going full speed ahead all the time, getting this country back - I mean it's worse because you don't have the band, you don't have the flags flying, you don't have the uniforms. But the work - you are fighting at home against hunger and abroad against death. I mean you haven't got that tremendous drive of the war psychology backing you up, and the work is that much harder.

1st Student: Mr. Secretary, do you really have the hope that

international trade will be helped by that stabilization?

H.M.Jr: Yes. Just as long as a man bought or sold and he wasn't sure of what he was going to get paid, and that was an additional risk - now we have smoothed that out, we know that the medium of payment is fairly constant. He doesn't have to worry about that. The people in the United States feel if they have a contract for a bridge which takes them two or three years to build - they didn't know how to figure for it; they had to worry about the thing. It was almost impossible for an American doing business abroad on a long term basis to estimate - Now that thing is removed and it gives them great confidence and they can go ahead with their business. Very, very helpful - the exporters and importers particularly.

1st Student: It was said somewhere - I don't remember where - that we were the ones who were sure to stick by it and we couldn't be too sure that they would play their end of the ball game.

H.M.Jr: Well, fortunately, you see, there's nothing in writing. It's on a 24-hour basis and up to now there's been more and more confidence in each other. I am very hopeful it will continue to grow. But it is just like you men might go into partnership with each other. Well, you don't know; you think he's a good-looking guy and as far as you know he plays ball on the level. But you don't know. Well, as you get to know him, you get to like each other more and more. Well, in this case we've gotten at least to know each other, to talk to each other. There wasn't any exchange, or at least any information, before. And as we get to know these people we find they're all right; they've played cricket so far, and we have. Now, this whole question - all the treaties aren't worth the paper they're written on if the people haven't got confidence in each other. And that's why this thing, as a "gentlemen's agreement" is interesting and new in international affairs; and it looks as though it is going to work.

J: We want to thank you very much, Mr. Secretary.

H.M.Jr: Not at all. I appreciate - I like - I don't get a

chance to do this often. (Shakes hands again with each student)

J: We hope we haven't stopped any financial transactions during the time you've given us.

H.M.Jr: If you have, it may be all to the good. And - ah - you just tell the boys this is all in the family.

J: Yes, sir, we'll see to that. Thank you, Mr. Gaston.

G: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 8, 1936, 7 p.m.

NO.: 1216

FROM COCHRAN.

FOR THE SECRETARY OF THE TREASURY.

This afternoon Sir Frederick Phillips, the Under-secretary of the British Treasury, called on me. He was en route from Geneva to London. He had been attending a meeting of the League Budget Committee in Geneva.

The French financial situation, particularly the gold problem, is of some concern to Sir Frederick. He expressed surprise that the French stabilization fund, which is endowed with ten billion francs of gold, should have turned over seven billion francs to the Bank of France so soon after the fund was created. He told me that the British had not been approached by French officials regarding their situation, but he had the impression that France is being placed in a position which might become dangerous because of the almost constant strain on the franc exchange, together with the necessity of repaying the British bankers credit. Sir Frederick said that he especially feared the possibility of exchange control which would shell(?) much of the progress accomplished recently

recently through particular(?) monetary cooperation, and any chance for reducing barriers to trade would be seriously checked thereby.

I was asked by Sir Frederick how much gold Spain had sent into France. I replied that I understood that much of the gold which was recently imported from Spain into France was converted into currencies such as sterling and dollars rather than into francs. The last figures I had, i.e., those of French customs for October, showed that in the month of October 677 million francs in gold coins were imported from Spain.

Reference was made by Sir Frederick to the various rumors regarding French borrowing, and regarding a change in regulations for holdings of gold. I was asked whether advice from the United States had been solicited by the French, and I said that it had not, but that the American precedent for French legislation on gold had been cited by some French officials. I explained to Sir Frederick the important differences between the situation in the United States and the situation in France at the time the respective devaluations took place. Sir Frederick said that if he were asked for his advice, he would tell the French to go ahead and pay the actual current price for all gold

the

the Bank of France might have brought to it. January, he appeared to believe, might be the month which will be dangerous for the present French Government.

I was asked by Sir Frederick whether loans were being granted by New York to the Italians. I replied that nothing but ordinary short-term commercial financing could be permitted. We talked of the report which had appeared in the FRANKFURTER ZEITUNG that a ten-million-dollar bank was being set up in New York by Gianini to participate in Ethiopian development. The remark was made by Sir Frederick that Ethiopia would presumably add to the surplus of coffee and cotton in the world.

I had received today a copy of the Treasury's proceedings, from a private source, on capital movements, and I gave Sir Frederick a copy thereof. Sir Frederick had not yet seen it, and he was particularly interested in it because it appeared to contain information of a type which he said he had frequently sought to obtain on his own market but he had been unsuccessful.

END MESSAGE.

BULLITT.

EA:LNW

December 9, 1936.
8:55 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello

Garner: Hello Henry, how are you?

H.M.Jr: I'm fine. How are you?

G: I'm all right.

H.M.Jr: I didn't know whether you - I just wanted to call your attention to the statement that Hopkins made yesterday. It's in this morning's papers.

G: Well I didn't see it. What is it?

H.M.Jr: Hello.

G: Hello - I say I didn't see it. What was it?

H.M.Jr: Well he came out and said no one was going to go hungry and so forth and so on. We had quite a heated session yesterday and they're not going to be quite so drastic and I think it's all right now.

G: Yes I think it's all right.

H.M.Jr: And he's going - he.....

G: Well that's mighty fine, Henry. I hope to God you get it through and won't have too much trouble.

H.M.Jr: Well the point is that what he's doing will cost about 15 million dollars in January and no more but....

G: Well that's all right.

H.M.Jr: .....but we're not going to have any riots.

G: Yes, that's all right.

H.M.Jr: And this thing isn't going to bust loose this week.

G: Well that's good for you old boy.

H.M.Jr: And then when the boss gets back next week we're going to have a real talk but I mean the thing is tided over now.

G: I wish to God - I'm going to see him and if he asks me - if he'll give me a chance I'm going just by God go to the bat on a few things.

H.M.Jr: But they're not going to - if the plan was to get everybody excited over this thing.....

G: Yes.

H.M.Jr: ..... - that - that's finished.

G: Yes.

H.M.Jr: See?

G: I mean you - you think it's working out all right now?

H.M.Jr: Well it will work out all right till the President gets back and then I'm going to - after all you lay off these people just before Christmas and you're going to have everybody in the United States against you.

G: Yes. All right let's try to convince him when he comes back he'd better ease up on this thing and get to see towards spring.

H.M.Jr: The time to do it is April, May and June.

G: That's the boy.

H.M.Jr: I don't give a hoop how badly they are then.

G: I don't either. (Laughs) Good for you.

H.M.Jr: O.K.

G: O.K.

Meeting Held in Secretary's Office December 9, 10 A. M.

Present: Secretary Morgenthau
Prof. O. M. W. Sprague
Mr. Walter Stewart
Mr. Robert Warren
Mr. D. W. Bell
Mr. George Haas
Mr. Archie Lochhead

* * * * * *

Secretary Morgenthau explained to Professor Sprague, Mr. Stewart and Mr. Warren that he had invited them to this meeting in order to present a plan which had been worked out by the Treasury staff for the sterilization of future acquisitions of gold. He read the plan to them and then distributed copies for their use in the meeting.

Secretary Morgenthau explained that he first of all wished to discuss with them

(1) The method which the Treasury had worked out to sterilize gold, and

(2) The advisability of using this plan.

After examining the plan, Mr. Stewart stated that in his opinion it was technically accurate and the best method which he had seen to take care of this situation.

Professor Sprague also agreed that the method proposed was satisfactory and in his mind it was simply a question of mechanics. He stated that of course it would not be necessary for the Treasury to sell bills

in the market to cover this acquisition as other forms of securities could also be sold. He added, however, that the issue of bills was probably the best one, as bills being purchased principally by banks would take the money out of the banks, who in turn already had the money on deposit as the proceeds of gold imports.

They all agreed that these transactions should be handled through the Stabilization Fund, but brought up the question as to publicity to be given to such operations. The Secretary advised that if this step were taken it was his intention to give full publicity to the operations and in fact he might even give out the illustrated example of the detailed operations of a transaction similar to the one used at this meeting.

A general discussion then took place as to when this method should be used. It was explained that the Federal Reserve Board was fully informed as to the contemplated steps and that they were studying the plan; that their first reaction was altogether favorable, but a further answer was to be received from them on Friday.

It was further explained by the Secretary that this whole question was one in which the Federal Reserve Board and the Treasury were cooperating, but that he thought it very difficult for the Federal Reserve Board to make any plans for the control of excess reserves when such plans might immediately be upset by a further inflow of gold. It was to give the Federal Reserve Board an opportunity to make plans and take such action as they might deem necessary that the Treasury wished to sterilize further gold imports.

Professor Sprague asked whether the question of sterilizing acquisitions of silver was being considered and it was explained to him that the silver purchase law made it mandatory on the Treasury to issue silver certificates for the cost of silver acquired but gave the right to the Treasury to issue silver certificates for the difference between the cost of the silver and $1.29. Silver certificates have only been issued for the actual cost of the silver, so that, in as far as possible, the Treasury is neutralizing the purchases of silver. Professor Sprague pointed out that the Federal Reserve Board could probably tighten up the money supply if they so desired by selling a certain amount of their short-term Government Bonds and replacing them to a smaller extent by long-term Government Bonds. This would give the desired effect and at the same time not decrease their earnings. In other words, they could sell out, say $500,000,000 of short-term Government Bonds, and replace them to the extent of $100,000,000 by long-term Government Bonds. This would make a net decrease in their holdings of $400,000,000 and still give them at least as good earning power as they have at present.

Professor Sprague also brought up the question as to the result on countries such as France and England if we announced a policy of sterilizing gold. This might seem to imply that we thought conditions abroad were of such a nature that we expect to draw a large quantity of gold from them and in this way accentuate the flow of gold from the other side. It was thought that this would not be true, as it could be explained that there was a large amount of hoarded gold, as well as newly mined gold, which might very naturally come to this market without any depletion

of the monetary stocks of these other countries. Mr. Warren remarked that from his casual study of capital movements recently released by the Treasury, there was a steady flow of gold to this country, and although this might increase or decrease at particular times owing to disturbances, on the whole we must expect to receive continued shipments of gold for some time to come.

Professor Sprague and Mr. Stewart then pointed out that the Treasury might be subject to criticism owing to the fact that it would be necessary for the Government to pay interest on the funds it borrowed in order to sterilize this inflow.

The Secretary explained that this cost would be very small owing to the low price we were paying on bill borrowings and that he thought he would rather defend this cost than to try to explain at some future time why he had not taken steps to prevent gold from being our master rather than treating it as a servant.

Professor Sprague then brought up for consideration the question as to whether or not this step would be construed in some quarters as a deflationary step, but the Secretary again pointed out that he would simply be sterilizing further imports, which would not mean any steps toward lowering present levels, but would simply allow the Federal Reserve Board the opportunity to take necessary control measures. Mr. Warren thought that the country as a whole would support this proposed move and the only opposition would come from the small minority who might still favor further inflation, but he thought that the groups which favor inflation were growing smaller and less inclined to push further action along these lines. Mr. Warren was very much interested in the success of the sale of Baby Bonds, and the Secretary ad-

vised him that on the average we were making 50,000 sales a month, of which 25,000 were repeat orders and 25,000 new names. He felt that by the sale of Baby Bonds he was building up a class of investors who would have a real interest in the financial program of the United States and might be counted upon in the future to give constructive support to the Treasury in any defenses which might be necessary against raids on the Treasury by minority groups.

In reading over the present example of the detailed operations of transactions necessary to sterilize future acquisitions of gold, it was thought that before making this public it should be gone over carefully to make sure that the public did not give any wrong interpretation to such certain words as "impounded" and "sterilized". Mr. Warren agreed to stay and go over this with Mr. Haas carefully in order that this objection might be removed.

It was also decided that some thought should be given to whether or not it should be made public that any outflow of gold might be treated in the reverse manner so as to avoid any strain on the credit structure of the country should movement in the other direction take place. The question as to whether or not at some time in the future it might be decided advantageous to endeavor to allow the normal inflow and outflow of gold to take place in the ordinary manner, as distinguished from gold movements occasioned by special capital movements, was also considered, but it was thought that this was a point which need not be decided at the moment.

Professor Sprague pointed out that the control of credit in the United States was necessarily a dual function of both the Government and the Federal Reserve Board. He thought that in all countries where this existed the opinions of the Government would sway the Central Bank, but that on the other hand, due consideration and respect should be paid to the opinions of the Central Bank.

The Secretary stated that the reason the Treasury was in favor of the proposed plan of sterilizing was that it could be carried out without any additional legislation and could be altered any time it might be considered desirable.

Everyone present agreed that the plan proposed was both desirable and practical and there was no reason for delaying action beyond the time that it was fully agreed upon by the Federal Reserve Board.

The Secretary then invited Professor Sprague, Mr. Warren and Mr. Stewart to make any criticism they might have in mind in regard to the policies of the Treasury. He asked them to be frank and not "sugar coat" their opinions, as it was his desire to obtain the benefit of any constructive criticism they might have to offer.

Professor Sprague stated that he would like at some time to discuss the tri-party agreement, especially as it affected the sterling dollar rate. He felt that if too great an effort was made to maintain sterling at the present rate and it was then found necessary to alter the rate by, say, ten or fifteen points, all confidence in sterling, and incidentally, the tri-party agreement, might be lost and sterling might conceivably sink to a very low level. He added that London apparently was determined to

keep low interest rates in effect, but he thought that they should be prepared to raise interest rates slightly if they should lose a considerable amount of gold and ease the situation in that way.

Secretary Morgenthau explained that contrary to popular opinion the tri-party agreement was not concluded in about five days, but on the other hand was the result of constant effort on his part during the past two years to come to an arrangement with the British, which had only met with success about the middle of July. He added, however, that since such contact and cooperation have been achieved, both the British and the American authorities have worked together on the friendliest terms, and he felt that any matters of mutual interest could be discussed freely and a solution arrived at on a pleasant basis. He invited Professor Sprague to visit the Treasury again, sometime before he sailed to Europe in February, to discuss the tri-party agreement more fully, and Professor Sprague accepted this invitation. Professor Sprague mentioned that in the present world of managed currency it was difficult to check and examine the various trends and that we should endeavor to test oppositions from time to time to assure ourselves that we were going in the proper direction.

Mr. Warren thought that the study of statistical data such as was compiled by the Treasury would be the means of answering said questions and that the main danger at the present time would be of allowing ourselves to lapse into a rigidity of mind rather than method.

354 Fin

December 9, 1936.
10:50 a.m.

H.M.Jr: Hello

Operator: Dr. Burgess.

H.M.Jr: Yes.

Operator: Go ahead.

B: Hello

H.M.Jr: Hello

B: Oh good morning sir.

H.M.Jr: Good morning.

B: They're a little bit easier this morning.

H.M.Jr: Yes.

B: A 32d or two off from the bonds.

H.M.Jr: I see.

B: Now I've bought five million already.

H.M.Jr: Of the new ones?

B: Yes.

H.M.Jr: For us?

B: Well half for you and half for us. I think that's the best arrangement. I think that's what....

H.M.Jr: Oh you're horning in on this deal.

B: Oh you want to do it all, do you?

H.M.Jr: No - no but yesterday you thought - you were so busy there swapping your pennies around that you didn't want any of this.

B: Well we were operating pretty heavily there.

H.M.Jr: But I get half of this.

B: What's that?

H.M.Jr: All right.

B: (Laughs)

H.M.Jr: I'm not just you know a fair weather friend.

B: (Laughs)

H.M.Jr: All right - 50-50.

B: Now I dropped it a 32d to put in another five million.

H.M.Jr: That's all right we'll take all we can get.

B: All right, sir, very good.

H.M.Jr: We'll take all - we'll be delighted. I don't know yet which fund I'll use it for.

B: I see, yes. Well this is for delivery on the 15th.

H.M.Jr: All right - all right.

B: Yes, all right I'll let you know if anything is new.

H.M.Jr: You know how many were in up to last night, don't you? There were over five billion.

B: Over five billion.

H.M.Jr: Yes.

B: Oh well that's only less than 20 per cent a lot.

H.M.Jr: Yes, about 12-1/2.

B: Oh yes, well when do you announce that?

H.M.Jr: What? Not till tomorrow morning.

B: That's all right. Well the market will stiffen up when that's announced.

H.M.Jr: Sure.

B: Yes - yes.

H.M.Jr: Sure, that's why I didn't want to let you have half.

B: (Hearty laughter)

H.M.Jr: Well I didn't want to hold out on you.

B: (Laughs)

H.M.Jr: O.K.

B: Well I'll call Marriner. He's the fellow that - I just won't coax him anyway.

H.M.Jr: All right. Now we go 50-50. I'd much rather not change the arrangements.

B: I think we'd better stick to the arrangements.

H.M.Jr: You had a little cold feet yesterday.....

B: Yes.

H.M.Jr: ....but I guess you got out a hot water bag.

B: O.K.

H.M.Jr: All right.

B: First rate

H.M.Jr: Goodbye.

B: Goodbye.

December 9, 1936.
11:39 a.m.

Operator: Go ahead.

H.M.Jr: Hello

Burgess: Hello

H.M.Jr: How is she going?

B: Well about the same.

H.M.Jr: How much have you done?

B: Well we haven't had a report of any more yet.

H.M.Jr: I see.

B: I think we'll get some more though.

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

B: I think this whole day will be taken care of when you make the announcement tomorrow.

H.M.Jr: Yes. In the meantime.....

B: In the meantime we'll take care of it.

H.M.Jr: Righto. We'll take all that we can get under par.

B: Very good.

H.M.Jr: Be very glad to.

B: Fine.

H.M.Jr: Thank you.

December 9, 1936.
11:43 a.m.

H.M.Jr: Hello

Dr. Steinberg: Hello - Mr. Morgenthau?

H.M.Jr: Yes.

S: Rabbi Steinberg calling.

H.M.Jr: Thank you

S: How are you?

H.M.Jr: I'm very well. Dr Steinberg, I want to ask a favor of you.

S: Well if I could do it I'd be glad to.

H.M.Jr: You know on the 20th I took on an obligation to speak to the combined Congregations of Baltimore and I'm going into an entirely new field when I attempt to do such a thing and what I need is some advice and some thought. Now I wondered what your plans were over the week-end.

S: Over the week-end.

H.M.Jr: Hello.

S: Hello - I've got nothing

H.M.Jr: I don't hear you.

S: Of course during the sabbath I have to be in town.

H.M.Jr: Pardon me?

S: I say over Saturday I have to be in town.

H.M.Jr: Yes.

S: And on Sunday morning I must be in New York and Sunday evening I'm speaking in Philadelphia.

H.M.Jr: Oh.

S: Which means that my program is terribly cramped.

H.M.Jr: Yes.

S: What - are you talking you say for the combined congregations of Baltimore?

H.M.Jr: Yes, on the night of the 20th.

S: On the night of the 20th. That doesn't give us terribly much time.

H.M.Jr: No.

S: I'm wondering whether you can't do this -

H.M.Jr: Yes.

S: If I give you my street address - ah - well, of course, I don't know quite what it is that you'd want - whether you just want suggestions or a draft - a tentative draft.

H.M.Jr: Well it's more that I want to get myself in the mood and the atmosphere and - and what should I say? I mean I can't disassociate myself from - as an individual and my official position, you see what I Mean? I wanted the personal contact as much as anything else. Of course a draft would be fine but there are certain things which will - I'll feel sympathetic to and feel that I can say and other things that I'd feel I couldn't say.

S: Is there any chance of your being in New York in the near future?

H.M.Jr: Well I mean this is important and the only day that I'm free - I mean that I could devote to this would be Saturday and Sunday but you're tied up then, aren't you?

S: Well you see I have to be with my congregation on the Sabbath.

H.M.Jr: Yes.

S: And Sunday happens to be a terribly crowded day.

H.M.Jr: Yes.

S: And I - I don't see how I can.....

H.M.Jr: You're going to be in Philadelphia Sunday?

S: I'm speaking at Philadelphia Sunday evening.

H.M.Jr: Well what - what are you going to do Monday?

S: Well I've got to be - I've got to be back in New York by 10:30.

H.M.Jr: Oh.

S: Then I'm due in Bridgeport.

H.M.Jr: You're busy aren't you?

S: It happens to be just about the worst time of the year.

H.M.Jr: Oh yes.

S: Is there any chance of your being in New York on other business.

H.M.Jr: No but I'd come up if - if we could get.

S: Is it impossible for you to come to New York to meet with me?

H.M.Jr: No, but I mean you'd be busy Saturday and Sunday, wouldn't you?

S: Yes.

H.M.Jr: I mean you wouldn't be free to spend a half a day Saturday.

S: Oh yes, Saturday afternoon I'd be entirely free.

H.M.Jr: On Saturday afternoon you'd be entirely free?

S: Ah-ha.

H.M.Jr: Well then I'll tell you what you do. I'll talk to Mrs. Morgenthau and have I got your number?

S: My home number I'm not certain.

H. M. Jr: Well I mean where will you be say between six and seven tonight, do you know?

S: Ah - between six and seven tonight I'll be at home in New York. Now let me give you my number.

H.M.Jr: Please.

S: Are you ready?

H.M.Jr: Yes, I'm ready.

S: Vanderbilt 2-5441.

H.M.Jr: Would you mind repeating it?

S: Vanderbilt 2-

H.M.Jr: 2.

S: 5441.

H.M.Jr: 5441.

S: Now if you were free on Saturday afternoon in New York City.....

H.M.Jr: Yes.

S: .....I could give the entire afternoon. I wouldn't - I may as well indicate that I wouldn't be able to do any writing at that time.

H.M.Jr: No.

S: But that wouldn't prevent you from doing it.

H.M.Jr: No.

S: I'm a traditionalist in observance, you see?

H.M.Jr: Pardon me?

S: I say I'm a traditionalist in observance, you see?

H.M.Jr: Yes, well I understand that. But I mean we could talk.

S: Oh certainly and you could write to your heart's content.

H.M.Jr: I see - or somebody could take it down.

S: Exactly.

H.M.Jr: I mean you - you - would it interfere with - I mean if you talked at me or talked at the Secretary that I have?

S: No that wouldn't matter.

H.M.Jr: That would be all right?

S: That would be all right, yes - entirely.

H.M.Jr: Well you see the thing that I'm trying to do is I'd like to get into the spirit of this thing, you see?

S: Uh-huh.

H.M.Jr: And just to have somebody write a speech for me isn't what I want.

S: Well I can understand that.

H.M.Jr: And I - I did this thing perfectly - I want to do it - I'd like to give something of myself and I just don't want somebody to write a speech and hand it to me.

S: Uh-huh.

H.M.Jr: I'm going to see if I can't arrange it that I'll call you at your home tonight around 7 o'clock.

S: Good enough. I'll see what I can do to perhaps remove some part of my program for Sunday.

H.M.Jr: Yes.

S: I can't get out of Sunday evening and I don't see how I can get out of Sunday morning but I might be able to be up with you on Sunday afternoon.

H.M.Jr: Up where?

S: In - in Washington.

H.M.Jr: And then go to Philadelphia you mean?

S: But I don't see how that would be possible. Let me see - I - it's four hours to Washington, isn't it or five?

H.M.Jr: Four hours.

S: Four hours. I wouldn't be able to leave before noon - wouldn't get in to Washington until four and I'd have to be back in Philadelphia by.....

H.M.Jr: No that would rush you too much.

S: Certainly yes, really.

H.M.Jr: Now let me talk it over. I'm quite serious about this and if we had all Saturday afternoon I think we could do it.

S: I think so very definitely.

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

S: By the way I'm entirely free on Saturday afternoon. There's nothing I - I have to do. It's just that I observe the Sabbath.

H.M.Jr: Oh, well when - from when to when are you free?

S: From one to 8 o'clock.

H.M.Jr: From one to eight.

S: And even later.

H.M.Jr: And even - you mean you have nothing Saturday night.

S: We've got the Theatre Guild but we don't have to get down there necessarily on time.

H.M.Jr: I see. Well thank you very much.

S: Not at all.

H.M.Jr: I'm asking a favor of you and I'm going to see if I can't adjust myself.

S: If you can't do what?

H.M.Jr: Adjust myself.

S: I'm awfully sorry to impose that obligation.

H.M.Jr: No, no, no - it's the other way around.

S: All right. Well I'm glad you feel that way about it. I'm sorry I can't come down and see you.

H.M.Jr: Thank you.

S: All right, sir - goodbye.

December 9, 1936.
11:57 a.m.

Operator: Operator

H.M.Jr: Attorney General please.

O: Attorney General - all right.

H.M.Jr: Hello

O: The Attorney General is in Press Conference. His Secretary is on the line - Mr. Houston.

H.M.Jr: Yes.

O: Mr. Houston.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello

Houston: This is Houston, Secretary to Attorney General.

H.M.Jr: This is Mr. Morgenthau. When will the Attorney General be available?

H: Very shortly I think Mr. Morgenthau. He's in a Press Conference just now.

H.M.Jr: Ah-ha. How long has it been going?

H: It's been going about 20 minutes.

H.M.Jr: Well how long do they usually last?

H: They usually last about 30 minutes. Of course sometimes it's longer.

H.M.Jr: Yes. Well what I what I want to talk to him about is very urgent and would you ask him, as soon as he comes out, to call me?

H: I will indeed.

H.M.Jr: It's - it's an urgent matter and I - I'd like it if you would bring it to his attention.

H: He'll call you just as soon as his Press Conference is over.

H.M.Jr: Ah - thank you.

H: You're quite welcome.

Pages 367 through 37[illegible], dated 12/10/36,
taken from this book and placed in
Book 48

Subject: United Kingdom: abdication

December 9, 1936.
12:14 a.m.

Operator: Mr. Oliphant.

H.O: Yes.

H.M.Jr: I talked to the Attorney General.

O: Yes.

H.M.Jr: He says he's too busy - now wait a minute - (Aside to someone in his office: "Take this in to Mr. Oliphant please will you?") I just sent this clipping in to you and if you'd have somebody put it in an envenope and mark it "Personal " - the one from the Daily News.

O: Yes.

H.M.Jr: And send it over to the Attorney General, see?

O: Yes.

H.M.Jr: He says he'll send immediately for Brien McMahon.

O: Yes.

H.M.Jr: And find out what it's all about.

O: Yes.

H.M.Jr: And then have Brien McMahon contact you. But he says he's too busy to handle it himself but he will see that nothing slips up tomorrow.

O: All right.

H.M.Jr: See?

O: He's going to contact McMahon and McMahon's going to contact me.

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

O: Uh-huh, well I'm afraid that's getting it a little diluted.

H.M.Jr: Well I've made it awful strong, Herman.

O: All right. Well I'll - I'll ride McMahon.

H.M.Jr: I've made it awful - say listen - you can ride McMahon a damn-side better than you can ride the Attorney General.

C: That's right.

H.M.Jr: And I.....

O: Well I'm not sure of that.

H.M.Jr: And I told him that this was just one of many cases.....

O: Yes.

H.M.Jr: .....and we felt - I went so far to say that Igoe was mixed up with the mobsters in Chicago.

O: Yes, now I wonder would you let me take Graves with me.

H.M.Jr: That's all right. No McMahon - you insist on McMahon coming to see you.

O: All right. I mean I want to have Graves in.

H.M.Jr: Oh yes, of course, anybody that you want.

O: All right.

H.M.Jr: But the question of handling in the Court and I think that's your field.

O: Right.

H.M.Jr: But I've never been so strong or as exciting as I was with the Attorney General.

O: All right. You sent the clipping. I have it right here.

H.M.Jr: If that goes to the Attorney General I think that will open his eyes.

O: All right.

J. Viner. 374

Walter Stewart
Leon Fraser
Hansen
Riefler

Dec. 9, 1936.

Told Livesey on telephone that Williams and Riefler were are suggestions. Also gave this information to Eccles. HDV.

375

DEPARTMENT OF STATE

OFFICE OF THE ECONOMIC ADVISER

December 8, 1936.

Dear Mr. Taylor:

The Acting Secretary of State has authorized me to take up informally with you and with Mr. Marriner S. Eccles, Secretary Hull's Buenos Aires telegram No. 25 of December 3, regarding the League of Nations Financial Committee.

I attach a copy of the telegram, a memorandum of information regarding the Financial Committee, and a copy of Geneva despatch 1898 Political, of October 16, 1936, which contains observations of Mr. Loveday, head of the Financial Section of the League Secretariat, concerning possible work of the Financial Committee (as well as of Mr. Stoppani, head of the Economic Section of the League Secretariat, concerning work of the Economic Committee).

I am taking the matter up in the same way with Mr. Eccles of the Federal Reserve System and shall be at the disposal of either of you in connection with the matter.

F. Livesey

F. Livesey,
Acting Economic Adviser.

MED

GRAY

BUENOS AIRES

Dated December 3, 1936

Received 8:07 p.m.

Secretary of State,

Washington

25, December 3, 8 p.m.

We are informed that Council of the League likely to express itself at January meeting in some manner towards the question of an American member on the Financial Committee. The Secretariat appears eager to make some new American appointment to this committee either as principal to take the place of Norman Davis or as alternate. It expresses a desire to have some one suggested to be appointed in either capacity at the same time indicating the belief that Professor John Williams would be an excellent member. Will you please consult the Treasury and the Federal Reserve and ascertain their attitude towards Williams' appointment or see if they have alternative suggestion?

HULL

NPL

December 5, 1936.

The Financial Committee of the League of Nations is composed of members appointed by the Council in their individual capacity. It is an offshoot of the Provisional Financial and Economic Committee created by the Council on October 27, 1920, and has never had a definite statute. Its powers, composition, procedure and practice are the result of an evolutionary process determined by circumstances since its formation. Its terms of reference were defined in the Council Resolution of October 27, 1920 as being " to advise the Council on the financial questions submitted to it by the Council." A council resolution of September 24, 1930 expanded its terms of reference by providing that, should a government require urgent advice from the Financial Committee when the Council was not in session the Committee might, subject to the approval of the President of the Council, give such advice.

In practice its functions have fallen into three categories:

(1) Advice and assistance to particular States;

(2) Consideration of general financial questions;

(3) Advice on financial questions arising out of current political or administrative work of the Council.

From

From 1920 to 1930 its principal work was of the first category in connection with the financial reconstruction of, or the settlement of refugees in, certain countries. In this work loans "under League auspices" were arranged for Austria, Hungary, Greece, Bulgaria, Estonia and Danzig. League responsibility in certain cases involved dealing with the whole economy of a disorganized country, in other cases, merely the strengthening and technical reform of a central bank.

Since 1930 the work of the Committee has been more and more concerned with general and current financial questions and has included studies on the supply and distribution of gold, capital movements, and clearing and compensation agreements. Its last report, issued on September 22, 1936, dealt with the need for alignment of the currencies of France, the Netherlands and Switzerland with the dollar and the pound.

The number of its members is unlimited, as is their term of office. It is at present composed of 14 members, most of whom are or have been closely connected with their respective Governments or Central Banks:

M. Dayras (Chairman, French, Inspector of Finance).

Dr. C. V. Bramsnaes (Danish, Governor of National Bank, formerly Finance Minister).

Mr.

Mr. NORMAN H. DAVIS (American).

M. Janssen (Belgian, formerly Governor of National Bank and Finance Minister).

M. C. E. ter Meulen (Netherlands, Messrs. Hope and Co.).

Dr. Feliks Mlynarski (Polish).

Sir Otto Niemeyer (British, Director, Bank of England).

Dr. V. Pospisil (Czechoslovakia, formerly Governor of the National Bank).

M. Shozo Shimasuye (Japanese, Agent of the Bank of Japan in London).

Sir Henry Strakosch (South African, Union Corporation Limited).

M. Alexandre Svanidze (U. S. S. R., Vice President of State Bank).

M. C. Tumedei (Italian, Deputy, Vice President of l'Istituto Mobiliare Italiano).

M. Carlos A. Tornquist (Argentina).

M. H. Blau (delegate of the Fiscal Committee, Swiss, Director General of the Federal Tax Administration).

Considerable dissatisfaction with the membership of the Committee has been manifested from time to time for various reasons, including the infrequency with which the non-European members attend meetings. The Council considered the matter in January, 1934, and decided that while it was not then necessary to draft a statute for the Committee

Committee, it would in future, when it appointed an over-sea member, also appoint a substitute to take his place when necessary, and that it would reconsider at its January 1937 session the need of drafting a statute for the Committee. Pending the discussion of the Financial Committee at the forthcoming Council session, the Council exempted the Committee from its new rules for all League committees, adopted on January 24, 1936, which include the following:

> " The Council shall appoint the members of the committees, as far as possible, at its January session".
>
> " The term of office (of members appointed in their personal capacity) shall not be more than three years, but shall be renewable."
>
> " A person belonging to a committee in his individual capacity who has not attended a meeting for two years shall cease to form part of the committee."
>
> " If a titular member has not proposed a substitute, the latter may be appointed by the President of the Council after consultation with the rapporteur to the Council."

The Financial Committee ordinarily meets four times a year, usually, but not definitely, in March, June, September and December. The expenses of persons appointed in a personal capacity or their substitutes in attending Committee meetings are paid by the League.

1863 Political

Geneva, Switzerland, October 16, 1936.

Prospects for League Action in the Economic and Financial Field.

Strictly confidential

The Honorable

The Secretary of State,

Washington, D. C.

I have the honor to submit the following report on the International economic situation based upon conversations with officials of the League Secretariat and with various representatives of governments on the Second Committee of the Assembly.

The general official opinion in Geneva is that for the present, in view of the posture of international economic matters as apparent at the close of the last Assembly, the public role of the League in international economic and financial collaboration will be a minor one, though the League's technical services through personal consultations and technical studies may be in a position to accomplish quietly some useful work.

Mr. Stoppani informs me that he is shortly leaving for Rome and will afterwards visit Paris, Brussels, the Hague and London. The object of his trip is to see whether and in what way the technical services of the League can be of assistance in facilitating collaboration. He said he felt that the [illegible] conjunction

conjunction with the Financial Committee, could be useful in drawing up a program for future action and said that some consideration had been given to calling a meeting before the end of the year. Whether or not this would be done would depend upon how the situation developed. He said he realized, however, that whatever program was developed the League should not have too close a connection with it. He mentioned in particular that this might be an obstacle to eventual German collaboration.

Mr. Loveday referred to the recent announcement respecting the sale of gold which he considered to be a great step forward. He thought the next move would be for some of the debtor countries to present memoranda respecting their situations, possibly to London or Paris, with a request for assistance. He also considered it possible that such a "statement of condition" might be submitted to the League by one or more states. He mentioned Hungary in particular. If this were done he assumed that the Council would refer the matter to the Finance Committee for study and report. He emphasized that there were great differences in the positions of the various debtor countries. In some the chief problem was long-term indebtedness, in others short-term debts were more important, and in some the difficulty was the lack of reserves. Each country would therefore have to be considered individually. Apart from other objections to such a method, the problem was too complicated to be dealt with by an international conference.

Mr. Loveday thought the Financial Committee could be useful in making a study and report on the conditions in certain

certain countries with which it was familiar, but like Mr. Stoppani he did not believe that the League should be very much in the foreground. As far as the Finance Committee was concerned it was not competent, due to its present composition, to play a very important part.

Mr. Stoppani feels that some definite program should be elaborated and he mentioned in this connection three different phases:

(1) Monetary collaboration. This he pointed out is already in operation to some extent and will probably be widened.

(2) Commercial policy. The countries which have devalued have various internal difficulties to face. If their action in removing trade barriers can be kept upon a plane of international cooperation, it will be easier for them to carry out a liberal policy.

(3) The countries which made the simultaneous declaration and the countries which have devalued as a result, between them control most of the world's gold and are the principal creditor countries. They have a collective duty toward the debtor countries and some study should be made in order to see what can be done.

The problem raised by the present system of German economy was not directly considered by the Second Committee. This question, however, appeared to be the chief preoccupation of the delegates in their private conversations. Mr. Moussanoff, former Bulgarian Finance Minister, informed me that he considered there was little use in endeavoring to help countries such as Bulgaria by debt reductions or loans so long as she did not have a free market for her exports.

exports. As long as Germany continues to take such a large proportion of Bulgarian exports such measures would not provide a permanent solution of the problem. Mr. Loveday in speaking of this question said that following devaluation in other countries the attraction of the artificially high German mark would be increased, and would thus tend to facilitate Germany's present policy of buying at high prices in Central Europe and forcing payment in German exports. He thought that this could be partly offset in countries like Bulgaria by devaluation which would put these countries in a better position to compete in other markets.

Mr. Stoppani said he had received intimations that Dr. Schacht would welcome an invitation to participate in economic conversations. From a number of sources I learn that Dr. Schacht sent a representative to Geneva to follow the discussions in the Assembly. Mr. Loveday thought the best approach to the German problem was through the Bank of International Settlements. The general opinion in Geneva seems to be that Schacht's influence in Germany has recently declined.

In conclusion I wish to report a matter which so far as I have been able to learn has not developed into a definite plan but which has been much discussed here. There is a strong feeling that some mechanism is necessary to coordinate and facilitate international economic cooperation, not in a technical sense so much as in respect of coordinating the broad lines of the programs of the various countries which are expected to take the lead.

There

There are, however, a number of difficulties in the way of setting up some sort of machinery for this purpose. It has been suggested that the Belgian Prime Minister, Mr. Van Zealand, might fulfill thise role; Mr. Stoppani informed me that one of the principal objects of his trip is to sound out possibilities in this connection. He said that Mr. Morrison had intimated to him that Great Britain might be favorable to an initiative of this kind. If this should develop, Stoppani thought that the technical services of the League might be useful but he felt they might best be made available on a personal rather than a formal basis.

Respectfully yours,

Prentiss B. Gilbert,
American Consul.

COPY:DJW

December 9, 1936

TELEGRAM TO THE PRESIDENT:

After weeks of the most exhaustive study I have come to the conclusion that for the sake of our domestic economy it is very important that future acquisition of all gold be sterilized. We feel that the following is the most practical and satisfactory device and can be carried out under existing laws.

1. The Stabilization Fund would buy all imported gold.

2. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.

3. The Treasury would obtain such funds by increasing the amount of Treasury bills sold to the market.

This plan would immediately remove the pressure on excess reserves from gold flowing into the country and more important if and when gold should flow out of the country it would not act as a deflationary device.

I have submitted the plan to Eccles and Goldenweiser and they personally heartily approve. Eccles is submitting plan formally to his Board for their approval.

I recommend this plan to you for your immediate approval for many reasons. If you think well of it I would appreciate your sending me your O. K. as I am

anxious to have a good reason to get part of our one hundred twenty million dollars of gold now in London on the way back to the United States for obvious reasons.

(Signed) Henry Morgenthau, Jr.

Secretary Morgenthau

In view importance matters you suggest feel incompetent make any decision at this distance and without further study and discussion. Can it wait until my return Wednesday morning. Best regards

Roosevelt

Dec 10 1936

December 10, 1936

TELEGRAM TO THE PRESIDENT:

Unless some unforeseen crisis should arise during the next few days will be pleased to await your decision in regard to sterilization of gold until your return to Washington on Wednesday Best regards

(Signed) Henry Morgenthau,Jr.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 9, 1936, 5 p.m.

NO.: 1219

Quiet exchange market here, with no important turnover taking place.

I was told by Pennachio that he bought fifty thousand dollars with francs for the Bank of Italy on the seventh, and that he bought a similar amount on the eighth. Today he expected to execute another order of this type.

Pennachio told me, incidentally, that Mitzakis has been called to the Ministry of Finance, and he was severely reprimanded for the article which he printed in INTRANSIGEANT two days ago calculating that during 1937 French Government borrowing would reach forty-one billion francs. Mention was also made by Pennachio that his colleague in London, Mr. Nathan, had telephoned today to report that the current visit to London by Paul Reynaud had given rise in London to new rumors that there would be further devaluation of the French franc. Reynaud during recent months had visited various European capitals without any apparently good reason. Each trip he made caused gossip as to whether he may be planning some international monetary arrangement or laying plans for his own policies should he/~~[illegible]~~ become Minister of Finance eventually.

A report is carried in AGENCE ECONOMIQUE of Paris from London today to the effect that Georges Bonnet may be named

named French Ambassador to the United States to undertake negotiations on war debts. I was told today by one of my French contacts that Reynaud's name had also been mentioned in this connection, but that the Premier prefers that Reynaud stay in the Chamber and head the opposition, especially in monetary matters, because, even though Reynaud and the Premier are on different sides, they are on friendly terms.

I called on Cariguel at the Bank of France at 11 o'clock this morning. French gold policy is still his main concern. Rumors still come to him of possible action by the Ministry of Finance toward reversing its position, but he has no definite information as yet. As I mentioned in a previous telegram, Cariguel believes that gold should be paid for by the bank at the current price, and that restraint should be put on the activities of French Inspectors of Finance who are making examinations of bank accounts.

From Cariguel I gained the impression that the statement of the Bank to be issued tomorrow will show a certain loss of gold for the first time since franc devaluation, which represents an amount applied on reimbursing the banking credit from the British. I asked Cariguel whether the public might not construe this loss of gold as indicating that the exchange stabilization fund had had to ask the

Bank

Bank to take francs in exchange for gold. Cariguel told me that this afternoon steps were being taken to prepare the press with regard to this point. He said that he must keep a steady rate for the franc because of the nervous character of the Paris exchange market. Therefore he stressed the difficulty of having a range of twelve centimes which is necessary for him to earmark gold in New York, or of thirty-two centimes which is necessary for gold shipment.

I had a letter from Governor Rooth of the Swedish Central Bank today asking for certain data to supplement the information I had given to him when he was in Paris with regard to reciprocal gold arrangements. He wants the data for use in discussions with his Scandinavian Central Bank colleagues when they meet on December 12 at Helsingfors.

AGENCE ECONOMIQUE today insists that the French Government should reverse its own policies and follow the same policies which are making devaluation a success in the Netherlands and Switzerland in so far as the repatriation of wealth and the revival of confidence are concerned.

The FINANCIAL TIMES London of December 8 said in part "reference has been made on several occasions in these notes to the belief that the French Government would relax the present gold laws but nothing is yet known as to what the new conditions will be. In well-informed French circles the view is held that Monsieur Vincent Auriol is not yet

convinced

convinced that the making of concessions to the gold hoarders is in accordance with the letter of Socialist policy but the longer the French Finance Minister desires to get the best of both worlds the less is he likely to reap the benefits of either".

The Lombard Street editor of the FINANCIAL NEWS referring to his column of December 8 to the failure of the Communists to support Premier Blum last Saturday and to the assistance which was received from the parties of the Center continues.

"If he does not depend any longer upon the support of Communists there is no need for him to pursue for sheer political considerations a policy which he knows to be harmful to France. There is no longer any need for him to maintain the vigorous legislation against profits on devaluation, legislation which is largely to blame for the inadequate financial results of devaluation. He is now in a position to encourage the repatriation of capital instead of having to discourage and penalize it".

END MESSAGE .

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 9, 1936, 9 p.m.

NO.: 1222

FROM COCHRAN.

FOR THE SECRETARY OF THE TREASURY.

I visited Rueff, who succeeded Baumgartner, at the Ministry of Finance late this evening. I mentioned to him an item which appeared in today's JOURNEE INDUSTRIALLE intimating that the report which the Finance Committee of the League of Nations is now preparing would reveal disappointment with the results in the monetary field of the tripartite arrangement, as well as the economic field. I said that I thought it would be unfair to criticize at this date the results in the monetary field, ~~while~~ although trade restrictions had not been relaxed with the celerity and to the extent that some had anticipated. However, there would be condemnation of the arrangement if any one of the three original parties thereto could not hold its currency, and naturally we all wished for the success of each other.

I asked Rueff whether he could give me any encouraging word on the outlook for the French exchange stabilization fund, and particularly as to treatment of repatriated capital and de-hoarded gold. The prompt reply of Rueff was

was that a bill was being sent to the Chamber which would permit the surrender of hoarded gold to the Bank of France at the old price, but that up until February 28, 1937, there would be no penalty. Under the monetary law of October 1, such gold was supposed to have been turned in by November 1, which period was later extended to the fifteenth of November and closed after that date. It is Rueff's expectation that this legislation will be passed without delay. I was most positively assured by Rueff that as soon as the legislation is enacted French gold policy would be liberalized. The Premier, he said, had not yet approved the details of the plan, but Rueff promised to give me advance information as to his decision. Rueff believes that the steps envisaged will be ample to meet the situation; if this is true, chances for real recovery in France might therefore be greatly increased, in my opinion.

END MESSAGE.

BULLITT.

EA:LWW