

January 8, 1937.

In re: Closing agreement in the case of
Osaka Shosen Kabuishi Kiisha,
17 Battery Place,
New York, New York.

Approved by the Secretary January 1937.

The liability involved in this case was for corporation income and profits taxes for the year 1920. The taxpayer is a Japanese corporation operating steamships between Japan and the United States and various other countries. Its principal office is in Osaka, Japan. Its main office in the United States is in Tacoma, Washington. A brief history of the case showing the taxes and income reported on the taxpayer's returns, the assessments and payments of taxes and the income and tax liability as finally determined is as follows:

A tentative return was filed March 15, 1920, which did not disclose the amount of the taxpayer's income but estimated the tax to be \$200,000.00, of which amount \$50,000.00 was then paid, and an additional \$50,000.00 was paid on June 15, 1921. On September 14, 1921, the taxpayer filed its completed return for 1920 disclosing a net loss of \$431,315.67. However, in view of taxes previously paid, the Commissioner made an assessment of \$100,000.00 against the corporation on October 29, 1921. While the revenue agents, upon receipt of the return (which disclosed a loss of \$431,315.67) upon the basis of information available to them in this country, approved the taxpayer's adjustments disclosing a net loss in the amount claimed in the return, the Bureau upon further audit computed a net income of \$121,725.44 and a tax of \$34,243.40. These adjustments resulted in an over-assessment of \$65,756.60 but no refund is contemplated inasmuch as the amount of the overpayment (\$65,756.60) is to be applied to a deficiency in taxes due for 1918.

The original completed return which was approved by the revenue agents in report dated November 15, 1924, reflected the income of the corporation upon a basis which undertook to comply with the provisions of the 1918 Revenue Act which, under rulings of the Attorney General, require the income appropriate to outgoing shipments to be included as income from the sources within the United States. Inasmuch as the gross operating income from the sources within the United States as so determined (\$4,760,881.18) constituted 11.67458 per cent of the total gross income from all sources (\$40,779,866.51) the taxpayer computed its expenses chargeable against such income as 11.67458 per cent of its gross operating expenses (\$44,718,453.18) or \$5,220,491.57. To the operating income from the sources within

In re: Closing agreement in the case of
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the United States there was added interest received of \$28,494.72, thus making the total income from the sources within the United States \$4,789,375.90. Since the expenses exceeded the income by \$431,315.67 the taxpayer claimed a net loss had been sustained in that amount.

Inasmuch as it had been the practice of the Department to audit cases of this kind in accordance with the provisions of Treasury Decision 3387 dated August 23, 1922 (see attached copy of memorandum from Acting Commissioner Naah to Acting Deputy Commissioner Allen dated July 1, 1927, which was approved by the then Secretary of the Treasury) the Bureau rejected the taxpayer's computation as disclosed by the return and made the computation of net income and tax liability in accordance with the said Treasury Decision. It should be observed that the Treasury Decision was also applied in the case of this taxpayer for the years 1918 and 1919, which was settled by the Bureau with the approval of the Secretary. Under the Bureau's computation a net income of \$121,725.44 was disclosed with a resulting tax of \$34,243.40 and an overassessment of \$85,756.60. The overassessment was reviewed and approved by the Income Tax Unit and the Review Division of the Office of the Assistant General Counsel for the Bureau of Internal Revenue, and the closing agreement has been reviewed and approved by the Commissioner of Internal Revenue and the Chief Counsel, Bureau of Internal Revenue.

January 8, 1937.

In re: Final Closing Agreement in the case of Matamoras Citizens' Water Company, Matamoras, Pennsylvania, approved by the Secretary January 1937.

The liability involved in this case is for corporation income and excess profits liability for the calendar year 1935. A schedule showing the net income and tax liability reported on the original return, the net income, tax liability, and the amount of the deficiency determined by the Bureau upon final audit is as follows:

Calendar year 1935	<u>Reported on Original Return</u>		<u>Finally Determined</u>		
	<u>Net Loss</u>	<u>Tax Liability</u>	<u>Net Income</u>	<u>Tax Liability</u>	<u>Deficiency</u>
	(\$3,451.97)	None	\$14,558.64	\$2,489.40	\$2,489.40
					104.69 (previous- ly paid)
					<u>\$2,384.71</u>

On December 30, 1935, the taxpayer sold all of its assets consisting of accounts receivable and plant. On its original return for 1935 the taxpayer reported a loss of \$4213.32 from this transaction but on its amended return reported no gain or loss. The revenue agent, after a field investigation of the taxpayer's accounts, computed a gain on this transaction of \$10,833.74, due to the disallowance as a deduction from the sale price of the mortgage bonds, the mortgage bonds having previously been included in the cost. The revenue agent also increased the operating income shown on the amended return from \$761.35 to \$3724.90 due to miscellaneous adjustments such as the disallowance of deductions for interest and taxes which, on the accrual basis, were allocable to the years prior to 1935. The Agent's findings were reviewed and approved by the Review Division of the Income Tax Unit in Washington and by the Bureau Technical Staff in Washington.

The Bureau policy with respect to final closing agreements, under Section 606 of the Revenue Act of 1928, is covered in Mimeograph 4149 dated February 9, 1934. This mimeograph authorizes the acceptance of a closing agreement where, after proper tax determination, a corporation is in process of dissolution and

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desires a closing agreement in order to wind up its affairs. The present taxpayer having consented to and paid the additional taxes determined by the Bureau and being in process of dissolution by order of the Court of Common Pleas of Pike County, Pennsylvania, the closing agreement is approved.

January 11, 1936

Mr. Bell had the Secretary sign these papers today.

Dear Mr. President:

Section 10 of the Gold Reserve Act approved January 30, 1934, establishes the Stabilization Fund in the amount of two billion dollars out of the increment resulting from the reduction in the weight of the gold dollar, and provides that an annual audit of such fund shall be made and a report thereof submitted to the President. In accordance with this direction, there is transmitted herewith a detailed audit of the fund covering the period June 30, 1935, to June 30, 1936.

The administrative supervision of this fund has been under my immediate direction, and all transactions thereunder have had either my approval, the Under Secretary's or the Fiscal Assistant Secretary's. Of course you know the financial transactions in this fund are not subject to review by any other officer of the Government. In view of this fact, I have appointed a committee of three Treasury officials who are not connected in any way with the office having supervision of the administrative accounts to make an independent audit. The report is, of course, strictly confidential, and I suggest that when you have looked it over it be returned to the Treasury for safe keeping until the fund has served its purpose, at which time the complete record may be made public.

Faithfully yours,

Secretary of the Treasury

The President,
The White House.

Date _____

The undersigned, one of the members of the Board of Trustees of the American National Red Cross Endowment Fund, does hereby authorize and approve the following resolution:

VOTED: That the Washington Loan and Trust Company, Treasurer of the Board of Trustees of the Endowment Fund of the American National Red Cross be instructed by the Secretary or Assistant Secretary for the Board, to invest a total of approximately \$120,000.00 obtained from the called American Telephone and Telegraph, 5% bonds of 1965, in the Federal Farm Mortgage Corporation, 3 1/4% bonds of 1964-44.

 Member, Board of Trustees,
 Endowment Fund,
 American National Red Cross.

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 OFFICE

January 11, 1936

Bullitt told the President Saturday (January 9) that the French said to the Germans, "For God's sake, don't land any more troops in the Morrocco, but we do not mind if you land them in Spain."

January 11, 1938

Congressman Kleberg brought in to me a copy of a letter from Congressman West where he made charges against Frank Dow. These charges were given to Mr. Gibbons in July, 1935, and Congressmen Kleberg and West claimed that they never had an answer.

I turned the matter over to Gibbons and told him to give me an answer in 24 hours. I have also informed McReynolds about it.

Monday, January 11, 1937

Mr. Allan Sproul, First Vice President, and Mr. L. W. Knoke, Vice President of the Federal Reserve Bank of New York, came to the Treasury this morning at the request of Secretary Morgenthau to discuss a question which had recently arisen concerning a letter they had dispatched to the Swiss National Bank covering gold transactions in this market before their letter had received the approval of the Treasury Department.

Secretary Morgenthau said that this was the first time that any question had ever arisen between the Federal Reserve Bank of New York and the Treasury Department in the past three years and that he wished to have the question thoroughly discussed so that there would be no possibility of any misunderstandings of this nature in the future.

Mr. Oliphant, Mr. Opper, and Mr. Lochhead of the Treasury Department were requested to discuss the whole question and report back to the Secretary at 2:30 P. M. The discussion centered around the memorandum which Mr. Oliphant had submitted to the Secretary covering the dispatch of the letter in question, and which letter Mr. Opper contended contained statements which were inaccurate and without authority from the Treasury. The discussion as to the accuracy of the statements in the letter were of a legal nature and Mr. Knoke and Mr. Sproul contended that they had ample authority to make the statements they did because of previous rulings on these subjects already received from the Treasury Department. Mr. Opper,

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on the other hand, felt that it would have been better to have certain statements slightly changed before they were passed on to the Swiss Bank.

The real background of the whole transaction apparently was the fact that the Federal Reserve Bank of New York had requested Treasury approval, not only of the letter which they proposed to forward to the Swiss Bank, but also of a cable inquiry which they had also received from the same source. Action on these matters by the Treasury had been delayed for over two weeks and Knoke, of the Federal Reserve Bank, growing impatient at the delay, and anxious to answer their correspondence, had stated that he was not going to wait any longer but was forwarding their reply without further consultation with the Treasury.

The letters addressed to Governor Harrison of the Federal Reserve Bank of New York by Bachmann of the Swiss Bank, which the Federal Reserve Bank had at first refused to forward to the Treasury as having no bearing on the questions asked, were given to the Treasury and it was explained by the Federal Reserve officials that if these letters had been asked for immediately by the Treasury Department they would have been furnished without question and their original refusal to forward them was due to the fact that the matter had been delayed so long that they did not wish to prolong the answer any further.

At 2:30 the group reported back to the Secretary and advised that agreement had been reached as to procedure to be followed in the future and that as a result of the meeting a greater degree of cooperation between the Federal Reserve Bank and the Treasury would undoubtedly result.

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The Secretary stated that he wished it clearly understood that any letters received by the Federal Reserve Bank relating to their duties as fiscal agent of the U. S. Treasury should at all times be available to the Treasury, to which both Mr. Sproul and Mr. Knoke agreed completely.

The Secretary also stated that he wished all inquiries received from the Federal Reserve Bank in regard to Treasury policy which were passed on to the Treasury by the Federal Reserve Bank to be answered within twelve hours, and wherever it was impossible to give a complete answer to such inquiries, the Bank making the inquiry was to be notified that their questions were being studied and an answer would be dispatched to them as promptly as possible.

Secretary Morgenthau charged Mr. Lochhead with the responsibility of notifying him whenever an answer to such inquiries was delayed beyond the period of twelve hours.

A. Lochhead

Mrs. William Brown Meloney

January 11, 1937
12:00 P.M.

H.M.Jr: Hello? Hello?

Mrs.
Meloney:

H.M.Jr: I'm all right, Mrs. Meloney.

M: I wanted to ask your help.

H.M.Jr: My help?

M: Yes.

H.M.Jr: Well, if I can give it to you without breaking the law, I'll give it to you.

M: I know you will, and I'm not going to ask you to break the law.

H.M.Jr: I'm disappointed.

M: Lady - You're disappointed?

H.M.Jr: Yes

M: I suppose everybody asks you to break it.

H.M.Jr: (Laughs)

M: I want you to - I know that what I'm asking is reasonable, and there's a way to do it. I just wanted to do it - know how to do it. Lady Rhondda is on her way over here on the Aquitania.

H.M.Jr: Yes

M: She's had the flu and she's become worse on the ship.

H.M.Jr: Yes

M: The ship's a day late arriving.

H.M.Jr: Yes

M: Her assistant editor over there is Miss Stanhope who is here - has just had a wireless saying - asking her to please try to clear luggage and to get to her on the ship, and to get on the pier and ask for the

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doctor and the doctor will take her immediately to her.

H.M.Jr: Yes

M: What can I do to expedite that and simplify it for her?

H.M.Jr: Well now, how do you -

M: She's a very great person.

H.M.Jr: How do you spell her name?

M: What's that?

H.M.Jr: How do you spell her name?

M: R - h - o - n - d - d - a - Rhondda.

H.M.Jr: R - h - o - (phone clicks) Hello?

M: Yes

H.M.Jr: R - h - o - n - d - e?

(Someone in room: No, as in Daniel)

M: D as in Daniel.

H.M.Jr: Yes

M: Or Denver.

H.M.Jr: Yes

M: And a second d - a.

H.M.Jr: Well...

M: R - h - o - n -

H.M.Jr: All right

M: - double d - a.

H.M.Jr: Now, when does she get in?

M: What?

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H.M.Jr: When does she get in?

M: She's due to arrive on the Aquitania, and it's one day late.

H.M.Jr: Oh.

M: So it won't....

H.M.Jr: Well, who can my man contact with up there, so that they know how to handle it?

M: Who - whom - to whom shall I go?

H.M.Jr: You don't have to go to anybody. I'll have them come to you.

M: Oh, you'll have somebody - aren't you a darling.

H.M.Jr: Are you at the Tribune?

M: What?

H.M.Jr: Are you at the Tribune office?

M: No, I'm over in the Graybar Building. I have two offices.

H.M.Jr: Well - well, give me your number and I'll have somebody call you in 15 minutes.

M: 42102, but if - there's a Tribune phone on the desk too, which is just as easy.

H.M.Jr: Well, which number should they call you on?

M: Well, Pennsylvania 64000 - that's the easiest.

H.M.Jr: Pennsylvania 64000.

M: That's the Herald-Tribune.

H.M.Jr: Somebody will call you in the next 15 minutes. Now, what she wants is when she gets off she wants to get off the dock and be taken care of, is that it?

M: Yes. She's ill, she's been quite ill, and Miss Stanhope and I were taking charge of getting her to a hospital if she needs - if that's what she needs.

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H.M.Jr: Well, whatever you want - I mean on the dock we'll take - take care of her and see that she's treated well.

M: Well, you're a darling.

H.M.Jr: And somebody will call you in 15 minutes.

M: That's fine. I'll be in Washington myself on Wednesday night and Thursday -

H.M.Jr: Good.

M: - and I hope to see you.

H.M.Jr: I hope so too.

M: And your beautiful lady.

H.M.Jr: Thank you. They'll call you within the next 15 minutes.

M: Well, bless you.

H.M.Jr: All right.

M: Goodbye.

January 11, 1937
12:06 P.M.

H.M.Jr: Hello?

Harry
Durning: Hello, Henry.

H.M.Jr: How are you?

D: Oh, all right, outside of a little bit of a cold.

H.M.Jr: Are you home?

D: No, I'm down at the office, down at the Customs House.

H.M.Jr: O.K. Do you know Mrs. Meloney of the Herald-Tribune?

D: Will I call her?

H.M.Jr: I said do you know her?

D: Yes, I think I do. She's the one that writes those articles?

H.M.Jr: Well, she runs their magazine section. She's a friend of Mrs. Morgenthau's.

D: Yes.

H.M.Jr: Her number is Pennsylvania 64000.

D: 64000.

H.M.Jr: And the Lady Rhonda - R - n - o - n - d - a

D: Yes

H.M.Jr: ...coming in on the Aquitania, and she's sick.

D: Yes

H.M.Jr: And they want her - when she gets on the dock they're going to have her doctor meet her.

D: Yes

H.M.Jr: And they want to get her off quickly, see?

D: All right, I'll get in touch with Mrs. Meloney right away.

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H.M.Jr: I told her you'd call her in the next 15 minutes.
D: I'll call her right now.
H.M.Jr: She's very nice, and she happens to be a Democrat,
and though - although she works -
D: All right, Henry, I'll go right to work on it and -
do you know what boat she's coming in on?
H.M.Jr: The Aquitania.
D: The Aquitania.
H.M.Jr: But all she wants is that when she gets to the dock
that she get off as quickly as possible.
D: All right. It's all taken care of.
H.M.Jr: I thank you.
D: All right, fine.
H.M.Jr: Bye.

January 11, 1937
2:35 P.M.

Operator: Go ahead.

Senator
Vandenberg: Hello, Mr. Secretary.

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

V: I'm all right, how are you?

H.M.Jr: Never better.

V: Optimistic and everything?

H.M.Jr: Ah - comfortable.

V: Oh, you always are.

H.M.Jr: Comfortable. I wouldn't - that's the best I can describe it.

V: I want to ask you something about your legislation to extend your two billion dollar plaything.

H.M.Jr: Yes, sir.

V: The existing law says that - ah - let me see, the language is that the decision shall not be subject to review by any other officer of the United States. Do you construe that to mean that Congress isn't entitled to ask you what you did with the money?

H.M.Jr: Ah - now, let me - I wouldn't want to give a legal opinion. I am under this impression: That I report to the President of the United States, see?

V: You do that.

H.M.Jr: I do that.

V: Yes.

H.M.Jr: Now, I've given him an audit - well, one audit to June 30, 1935, and tomorrow I'm giving him the audit to June 30, 1936.

V: Yes

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- H.M.Jr: Then when I appear before the Committee on Appropriations I have told them what the position of the Fund was and what our costs were and - off the record - and the - both parties were satisfied, see?
- V: Yes
- H.M.Jr: Your Republican member on the Committee of Appropriations was entirely satisfied; asked me some questions and I told them the exact situation. I've done that three years running.
- V: Ah-ha, but the - the actual operation of the Fund itself is not open to inspection.
- H.M.Jr: As I understand it - and - as I say, as I understand it, I give this report, which is an independent audit, to the President of the United States....
- V: Yes
- H.M.Jr: ...and to nobody else. V: Yes.
- H.M.Jr: Now, I - I - I believe that's correct.
- V: Well, that's the way I read the law, and -
- H.M.Jr: But I'm not a lawyer, I'm just a....
- V: Well, I congratulate you.
- H.M.Jr: I accept it.
- V: Yes
- H.M.Jr: I'm just a - you know, small town country publisher.
- V: I understand - farmer.
- H.M.Jr: Might I ask this, as long as I've been perfectly frank: Do you think that's all right?
- V: I think - no, I think that somewhere in connection with that money...
- H.M.Jr: Yes
- V: ...regardless of - even if the Lord himself were in

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charge of it - there's no reflection on anybody's integrity - I think that somewhere along the line, that much money - a report ought to be made to Congress on what's been done with it.

H.M.Jr: I see.

V: Don't you?

H.M.Jr: Ah -

V: Now, I'll concede that you can't run a Stabilization Fund on the billboards and that you can't let folks know what's going on while it's going on. But after it's over, why shouldn't that fund be just as meticulously reported to Congress as any other?

H.M.Jr: Well, as a matter of fact, I do. I do give a report to the Committees on Appropriation and up to now they've been perfectly satisfied.

V: Well, of course, they - you mean the House Committee?

H.M.Jr: Yes, yes.

V: Well, they're much easier satisfied than I am.

H.M.Jr: Ah - well, maybe they have more confidence in the Lord too.

V: (Laughs) Well -

H.M.Jr: (Laughs)

V: - they might, but I'm rather cynical on everything.

H.M.Jr: I see. Well, thank God I'm not.

V: Ah -

H.M.Jr: Well now....

V: - you have less reason to be.

H.M.Jr: Also true.

V: (Laughs) No....

H.M.Jr: Well now, look -

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- V: Hun?
- H.M.Jr: - let's - let's - let's see here; what I'd like to do is I - I'm - I think you'll con- - admit or - I mean you want to see the Fund extended.
- V: Well, suppose, for instance - suppose I wanted to know whether or not you used the fund at any time to buy silver. Is - am I entitled to inquire?
- H.M.Jr: Well, I tell you what you're entitled to, see? If - I would say this: If the Senate and the House would appoint, say, five members from the Senate and the House - five from the Senate and five from the House, three and two, you know -
- V: Yes
- H.M.Jr: - I'd be delighted to come up there, put both my reports on the table, and answer any questions that you want to ask.
- V: Well, of course, that wouldn't - that wouldn't be safe - ah - because it would - it would leak. There isn't any question.....
- H.M.Jr: No, no, but it would answer that - the question as to my integrity.
- V: Well, nobody's questioned your integrity.
- H.M.Jr: No, but I meant....
- V: It's a question of judgment.
- H.M.Jr: Well, any - well, any, any question - I mean if they - if - if the Vice President would appoint five members, three - or any way he wanted, and the House would do the two, I'd be glad to come up there and answer any questions anybody wanted to ask and give them the documentary support.
- V: I don't believe you're entitled to do that under the law, old man.
- H.M.Jr: Well....

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V: That's my quarrel with the law.

H.M.Jr: Ah-ha. Well - well, what have you got in mind?

V: Only - only that finally, when the whole thing is washed up, that a complete detailed report should be filed with Congress precisely as - in connection with every other dollar that....

H.M.Jr: No argument on that.

V: Huh?

H.M.Jr: No argument on that.

V: Well, then, I guess I can't fight with you.

H.M.Jr: I - I think you're right; I think it should be.

V: Well, that's fine. Much obliged to you. I - I always have difficulty in getting into a quarrel with you.

H.M.Jr: Well, and - but you never have any difficulty reaching me.

V: That's correct.

H.M.Jr: No, I have no argument; I think when the thing is finished and wound up, there should be a final report made to Congress.

V: Thank you very much, old man.

H.M.Jr: Thank you, sir.

V: Goodbye.

I. S. C. Report - Undistributed
Profits Tax

January 12, 1937

Secretary Morgenthau's letter to the President referring to ICC annual report recommending certain taxes which are inconsistent with principles on which President's message to Congress of 3/3/36 was based.

January 26, 1937

Letter from Joseph B. Eastman with draft of letter to the President. (Note: This correspondence although addressed to Secretary Morgenthau reached the White House in some mysterious manner. See ICC letter to Magill under date of 2/3.)

January 28, 1937

The President's memorandum "To Mac" advising him to tell Carroll Miller that he (the President) has this proposed letter and before the ICC sends it to him Miller had better see the President.

February 3, 1937

Letter to Mr. Magill from Oliver E. Sweet, Director, Bureau of Finance, ICC, sending Mr. Magill a copy of the correspondence listed above under date of January 26.)

February 9, 1937 (9:50 am)

HM, Jr's telephone call to Mr. Miller suggesting he send over the messenger who was supposed to have delivered the letter of January 26th to the Treasury because HM, Jr is positive it never came to the Treasury.

February 9, 1937 12:45 p.m.)

HM, Jr's telephone call to Chairman Miller, reporting messenger had been here and could not determine where he had delivered it. HM, Jr suggested they both drop the discussion on how the letter got to the White House by mistake.

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February 10, 1937

HM, Jr's telephone call to Chairman Miller that messenger had been back to the Treasury today and now thinks he left the letter with Mr. Bell of the Budget and Mr. Bell has that letter in his files.

February 11, 1937

Magill's memo to the Secretary. He has just read the copy of the letter of January 26th and has referred the draft to Mr. Kent. Neither the letter addressed to the Secretary of the Treasury nor draft of letter to the President was ever before in his possession and so he could not have discussed it with Mr. Sweet. Magill thinks Treasury should have opportunity of expressing its views if the letter has now gone to the President.

February 18, 1937

Mr. Kent's memo to Oliphant. Cannot find that ICC spoke to Mr. Lask, Head of Legislation and Regulations Division of IR, but obviously bad judgment was shown by IR in not insisting that the ICC suggestions be cleared formally through the Secretary, although this does not absolve ICC from impropriety of speaking on such important matter without clearing it with the head of the Department.

February 19, 1937

HM, Jr's letter to Mr. Eastman; pressure of business and delay in receipt of his draft letter has prevented him from responding more promptly to his suggestion of a conference. Would like to see him end of next week.

February 20, 1937

Mr. Eastman's letter to the Secretary apologizing for fact letter went astray. He will hold himself in readiness to discuss their annual report with Secretary.



THE SECRETARY OF THE TREASURY
WASHINGTON

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January 12, 1937

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My dear Mr. President:

I deem it my duty to call to your attention certain portions of the Annual Report to the Congress of the Interstate Commerce Commission, which was released to the press on Tuesday, January 5, 1937, in which that body recommends vital and far-reaching changes in the undistributed earnings tax, imposed by the Revenue Act of 1936, as it affects railroad corporations coming within the jurisdiction of the Commission. I am informed that such official action upon an important legislative matter was taken without prior reference to the Emergency Council. Although it relates to an indispensable revenue measure, the report was prepared and published without the courtesy of consultation with the Treasury Department. Moreover, its recommendations relating to taxes are inconsistent with the principles upon which your Message to the Congress under date of March 3, 1936, was based.

It seems unnecessary to point out in detail how prejudicial it will be to the integrity of the Administration's tax program and to the proper discharge of the responsibilities of the Treasury Department with respect to the revenues should the action taken by the Interstate Commerce Commission be allowed to establish a precedent for similar uncoordinated action by other branches or agencies of the Government.

In summary, the Interstate Commerce Commission in its Annual Report for 1936 states that the undistributed profits tax runs counter to the

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Administrative policy of encouraging the creation of sinking funds for the retirement of obligations prior to maturity, and will hinder the refinancing of additions and betterments out of earnings. Of the eighteen reorganization plans filed with the Commission to date, seventeen contain provisions for sinking funds. The surtax on undistributed profits will, according to the Report, unduly penalize the roads with such plans. The Revenue Act of 1936 exempts from the surtax amounts paid out or reserved for retiring funded debt or withheld from stockholders under written contracts of a certain kind executed prior to May 1, 1936. The exemptions do not apply in such cases if the contract was entered into subsequent to April 30, 1936. The Report states that roads which were financially sound and executed such contracts would gain exemption of such funds from the surtax, but those weaker roads reorganized subsequent to April 30, 1936, would be subject to the full amount of the surtax on amounts placed into a sinking fund or withheld from stockholders. It is emphasized by the Commission that railroads representing 70,041 miles, or approximately 27.7 per cent of the total operated mileage in the United States, are either in receivership or seeking reorganization.

Some of the important considerations which the Commission's Report does not mention are:

(1) The Report does not point out that the Revenue Act of 1936 specifically provides that domestic corporations, which for any portion

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of the taxable year are in bankruptcy under the laws of the United States or are insolvent and in receivership in any court of the United States or of any State, Territory, or the District of Columbia are exempt from the surtax on undistributed profits. Railroads which are in such a predicament are, therefore, fully exempt from the surtax on undistributed profits.

(2) The Commission's Report did not point out that reserves for improving property, retiring funded debt, emergencies, and insurance against obsolescence may, within reasonable required limits, be accumulated under the present law without payment of an excessively increased tax including both normal and surtax. Moreover, the Report did not point out that the substantial annual depreciation deductions taken by railroads, exempt from normal as well as surtax, provide a means for recoupment of depreciable assets.

(3) Further, the Commission's Report did not point out that it is possible for railroads to obtain additional funds for debt retirement, expansion, or other purposes through the payment of dividends in securities of the corporation, or through the offering of rights to the stockholders to subscribe for additional securities. Through the issuance of such rights, the railroad may obtain the reinvestment in its business of capital equal to all or any desired proportion of the current earnings that have been distributed in dividends and use proceeds to retire debt.

(4) The Report did not mention that under previous tax laws, the Revenue Acts of 1934 and 1935, railroads filing consolidated returns had

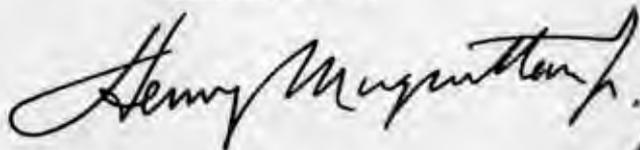
- 4 -

to pay a flat tax rate of 15-3/4 per cent, as contrasted with the present law admitting them to a graduated rate running from 8 per cent to a maximum of 15 per cent.

Finally, the Commission stresses the penalty to which certain financially weaker roads may be subjected. It is inaccurate, of course, to describe the surtax as a penalty. As your Message pointed out, two major objectives of an undistributed profits tax are to equalize the burden of taxation upon business profits as between corporations on the one hand and individuals and partnerships on the other, and to seek equality of tax burden on all corporate income, whether distributed or withheld from the beneficial owners. The surtax is the method by which such equalization is accomplished. To legislate in favor of any minority of the roads would release the majority that are admittedly financially sound from just payment of the undistributed profits tax. This would, in effect, be a form of preferential treatment denied to other taxpayers, corporate and individual, tantamount to a group subsidy. If the public interest requires that financial aid be extended from the public treasury to some of the weaker roads, it would seem wiser policy that it be done directly and openly rather than under the guise of special tax favors.

I have the honor to request that the opportunity be afforded me at your convenience to discuss the questions presented by the Commission's Report with you and the Chairman of the Commission.

Faithfully yours,



The President,

The White House.

*Not sent to
General Files.*

JAN 12 1937

My dear Mr. President:

I deem it my duty to call to your attention certain portions of the Annual Report to the Congress of the Interstate Commerce Commission, which was released to the press on Tuesday, January 5, 1937, in which that body recommends vital and far-reaching changes in the undistributed earnings tax, imposed by the Revenue Act of 1936, as it affects railroad corporations coming within the jurisdiction of the Commission. I am informed that such official action upon an important legislative matter was taken without prior reference to the Emergency Council. Although it relates to an indispensable revenue measure, the report was prepared and published without the courtesy of consultation with the Treasury Department. Moreover, its recommendations relating to taxes are inconsistent with the principles upon which your Message to the Congress under date of March 3, 1936, was based.

It seems unnecessary to point out in detail how prejudicial it will be to the integrity of the Administration's tax program and to the proper discharge of the responsibilities of the Treasury Department with respect to the revenues should the action taken by the Interstate Commerce Commission be allowed to establish a precedent for similar uncoordinated action by other branches or agencies of the Government.

In summary, the Interstate Commerce Commission in its Annual Report for 1936 states that the undistributed profits tax runs counter to the

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Administrative policy of encouraging the creation of sinking funds for the retirement of obligations prior to maturity, and will hinder the refinancing of additions and betterments out of earnings. Of the eighteen reorganization plans filed with the Commission to date, seventeen contain provisions for sinking funds. The surtax on undistributed profits will, according to the Report, unduly penalize the roads with such plans. The Revenue Act of 1936 exempts from the surtax amounts paid out or reserved for retiring funded debt or withheld from stockholders under written contracts of a certain kind executed prior to May 1, 1936. The exemptions do not apply in such cases if the contract was entered into subsequent to April 30, 1936. The Report states that roads which were financially sound and executed such contracts would gain exemption of such funds from the surtax, but those weaker roads reorganized subsequent to April 30, 1936, would be subject to the full amount of the surtax on amounts placed into a sinking fund or withheld from stockholders. It is emphasized by the Commission that railroads representing 70,041 miles, or approximately 27.7 per cent of the total operated mileage in the United States, are either in receivership or seeking reorganization.

Some of the important considerations which the Commission's Report does not mention are:

- (1) The Report does not point out that the Revenue Act of 1936 specifically provides that domestic corporations, which for any portion

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of the taxable year are in bankruptcy under the laws of the United States or are insolvent and in receivership in any court of the United States or of any State, Territory, or the District of Columbia are exempt from the surtax on undistributed profits. Railroads which are in such a predicament are, therefore, fully exempt from the surtax on undistributed profits.

(2) The Commission's Report did not point out that reserves for improving property, retiring funded debt, emergencies, and insurance against obsolescence may, within reasonable required limits, be accumulated under the present law without payment of an excessively increased tax including both normal and surtax. Moreover, the Report did not point out that the substantial annual depreciation deductions taken by railroads, exempt from normal as well as surtax, provide a means for recoupment of depreciable assets.

(3) Further, the Commission's Report did not point out that it is possible for railroads to obtain additional funds for debt retirement, expansion, or other purposes through the payment of dividends in securities of the corporation, or through the offering of rights to the stockholders to subscribe for additional securities. Through the issuance of such rights, the railroad may obtain the reinvestment in its business of capital equal to all or any desired proportion of the current earnings that have been distributed in dividends and use proceeds to retire debt.

(4) The Report did not mention that under previous tax laws, the Revenue Acts of 1934 and 1935, railroads filing consolidated returns had

- 4 -

to pay a flat tax rate of 15-3/4 per cent, as contrasted with the present law admitting them to a graduated rate running from 5 per cent to a maximum of 15 per cent.

Finally, the Commission stresses the penalty to which certain financially weaker roads may be subjected. It is inaccurate, of course, to describe the surtax as a penalty. As your Message pointed out, two major objectives of an undistributed profits tax are to equalize the burden of taxation upon business profits as between corporations on the one hand and individuals and partnerships on the other, and to seek equality of tax burden on all corporate income, whether distributed or withheld from the beneficial owners. The surtax is the method by which such equalization is accomplished. To legislate in favor of any minority of the roads would release the majority that are admittedly financially sound from just payment of the undistributed profits tax. This would, in effect, be a form of preferential treatment denied to other taxpayers, corporate and individual, tantamount to a group subsidy. If the public interest requires that financial aid be extended from the public treasury to some of the weaker roads, it would seem wiser policy that it be done directly and openly rather than under the guise of special tax favors.

I have the honor to request that the opportunity be afforded me at your convenience to discuss the questions presented by the Commission's Report with you and the Chairman of the Commission.

Faithfully yours,
[Signature]

The President,

The White House.

RD 1/12/37

Regraded Unclassified

From Eccles.

225

January 12, 1937

PROSPECT FOR MONEY RATES

Money rates have been exceptionally low in recent years as a consequence principally of two factors: (1) the large supply of funds seeking profitable use, and (2) the small demand from acceptable borrowers. During the past year the commercial demand for funds has increased and at the same time funds at the disposal of banks have been reduced by Federal Reserve action. Further changes in this direction may be expected this year, but the supply of funds in the hands of banks and of investors is so large that the increased demand can be met without a marked advance in rates.

Further reduction in excess reserves of member banks, if it occurs, will probably result in some stiffening of short-term open-market money rates, but even after this advance the rates will be below levels which in earlier years would have been considered abnormally low. While the demand for capital funds by corporations may be expected to increase, Treasury offerings will be small and the supply of funds held by institutions and individuals awaiting investment is large. It is to be expected, therefore, that long-term money rates, as reflected in bond yields, will show little or no increase in the next ^{year.} six months.

Short-term rates

In recent years the principal open-market short-term rates, as shown in the following table and on the chart, have been below 1 percent, with bankers' bills and Treasury bills generally at below $\frac{1}{2}$ of 1 percent. The

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lowest level reached by bankers' bills before 1930 was 2 percent in 1924. The rate on call loans with stock exchange collateral, until recent years the most important open-market rate, declined to 1/4 of one percent in 1935, but has been pegged since last May by New York City banks at one percent. There were only six scattered years in the period from 1890 to 1930 when this rate averaged below 2 percent and it was never below one percent. Commercial paper, which for more than half a century has been a popular medium for investment of short funds by country banks, now sells at a rate of 3/4 of one percent; the lowest quoted rate prior to 1930 was 3 1/8 percent in 1924.

MONEY RATES IN NEW YORK CITY

	Dec. 1936	Jan. 1934
Bills, 90-day unendorsed	3/16	1/2
Prime commercial paper, 4-6 months	3/4	1 1/4 - 1 1/2
Stock exchange call loans	1	1
Federal Reserve funds (interbank loans)	1/8	1/8
U. S. Government obligations - yields		
Treasury bills	0.21	0.67
Treasury notes, 3-5 years	1.04	3.11
Treasury bonds, long-term	2.27	3.50
Customers' loans	2.43	3.58
Federal Reserve bank		
Rediscount rate	1 1/2	2
Buying rate for 90-day endorsed bankers' bills	1/2	1/2

- 3 -

It is clear that prevailing short-term open-market money rates are abnormally low. These low rates have been largely the result of the large volume of excess reserves held by banks. Absorption of a large part of these reserves will eliminate this cause of low rates and will probably result in a moderate rise of open-market money rates.

But the rise should not be large. Even after an increase in reserve requirements by the full amount permitted under the law there will still be about \$700,000,000 of excess reserves. It is probable that the call money rate will not rise above one or $1\frac{1}{2}$ percent, because at such rates outside funds which are plentiful will be attracted. The plentiful supply of outside funds will also act as a check on the increase in commercial paper rates.

The rate on bankers' acceptances, which is now $\frac{3}{16}$ of one percent on 90-day bills, will not rise above the buying rate of the Federal Reserve bank which is $\frac{1}{2}$ of one percent. Any higher market rate would make it profitable to sell bills to the Reserve banks.

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Treasury bills, which now provide the most important medium for liquid investment in the money market, are largely held by New York City banks. The rate on these bills might be expected to rise above the prevailing extremely low level. A slight increase has already occurred in recent weeks, reflecting in part increased offerings by the Treasury and in part anticipation of higher money rates in case of increased reserve requirements. It is doubtful, however, whether this rate would rise above $3/4$ of 1 percent, in view of the popularity of the bills as a short-time investment, especially in view of the fact that bankers' bills cannot go above $1/2$ of 1 percent.

Some increase in yields on Treasury notes has occurred in recent weeks, partly because of the likelihood that exchange rights on future issues will be smaller in coming years than they have been in the past and perhaps partly because of adjustments of reserve positions. The shorter-term Treasury bonds, which have been selling on a yield basis of about 1 percent, have also been affected somewhat, but in view of the large amount of liquid funds that will still be held by banks outside of New York and by others than banks, no substantial rise in these rates is anticipated.

Rates charged customers by banks should not be in the least affected by increased reserve requirements. These rates have been slow in coming down and may continue to show a downward tendency, notwithstanding increased borrowing by customers.

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It appears, therefore, that only moderate advances in short-time rates may be expected in the near future, even if reserve requirements are further advanced. Beyond the next six months the course of rates will depend chiefly on the rate of business activity and the need for further restraining action by monetary authorities.

Long-term rates

Yields on high-grade long-term bonds have in recent years been at the lowest levels of this century. Long-term United States Government bonds have sold on a yield basis of less than $2\frac{1}{2}$ percent, notwithstanding the largest volume of Government debt on record. The lowest level reached by these bonds in the 'twenties was $3\frac{1}{4}$ percent; pre-war rates are not comparable because all bonds then bore the circulation privilege, which was of considerable value. The highest grade corporate bonds are selling on a $3\frac{1}{8}$ percent basis, compared with a low level for the 'twenties of about $4\frac{1}{2}$ percent, and about 4 percent in the years around the turn of the century.

Long-term rates have been affected in recent years by the volume of excess reserves held by banks. With the abundant supply of available funds and the small demand for loans banks have bought large amounts of securities, particularly Government obligations, and bank holdings of securities are now the largest on record not only in total amount but also in proportion of total bank assets. Member bank holdings of Treasury bonds and other securities amount to about 40 percent of their total loans and investments.

Reduction in excess reserves, together with increased demands for bank loans, might be expected, therefore, to lead to some sale of securities by banks and this would tend to depress their price and increase the yield. There are, however, other factors in the situation which might offset this influence.

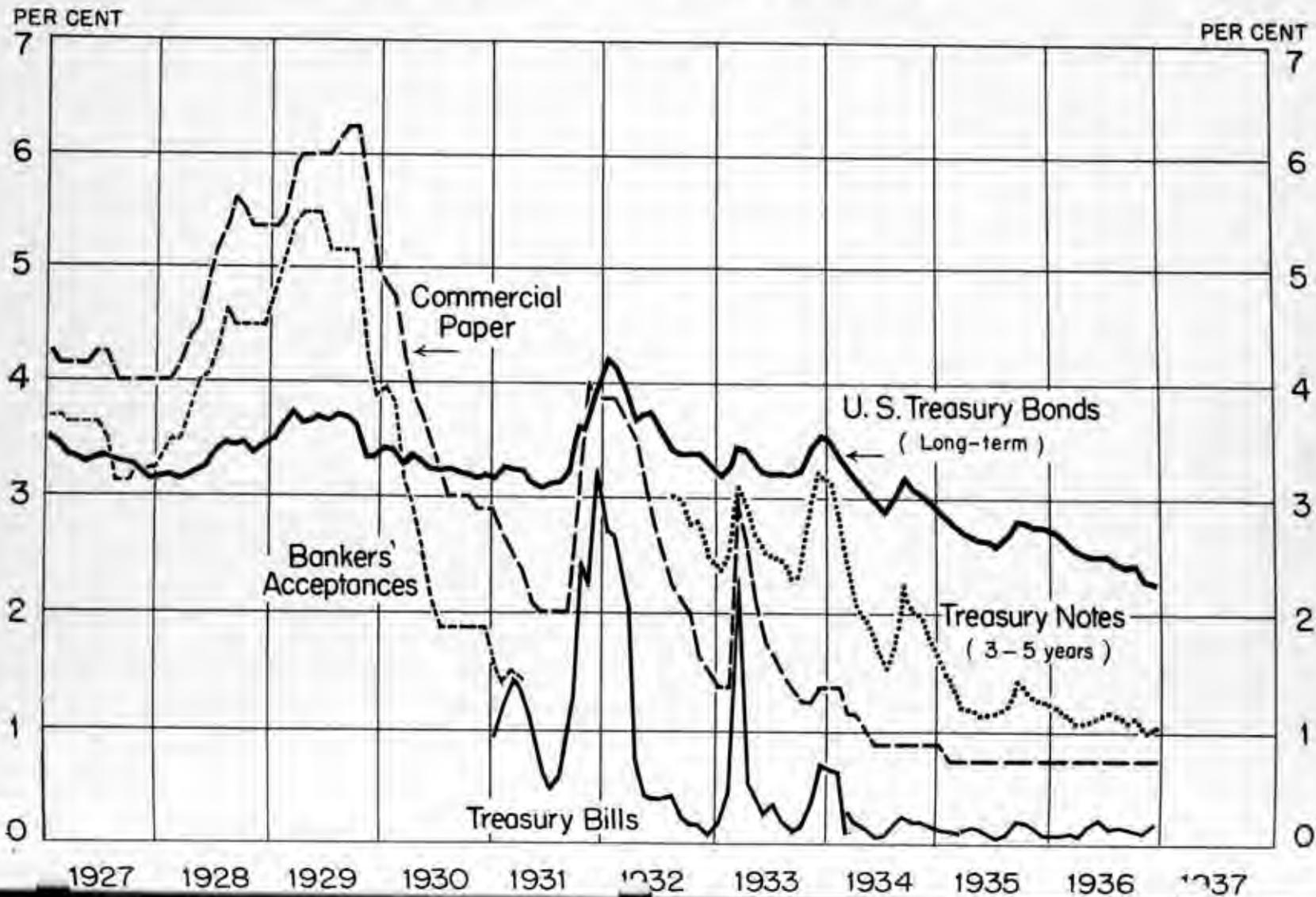
The first of these is the abundant supply of investment funds still available outside of banks. Insurance companies, other institutional investors, corporations, and individuals are holding large idle deposits awaiting investment. Restoration of confidence and improved corporate earnings resulting from continued business recovery should lead to active investment of these funds. Many investors, who have been awaiting the return of what they might consider as normal interest rates, are gradually deciding that it is better to put funds to use at prevailing rates than to hold them idle.

Another factor tending to prolong low bond yields is the likelihood of a reduction in the supply of United States Government obligations available in the market, because of purchases by the Treasury for investment of special funds, especially the social security funds, and eventually because of debt retirement.

It is not likely that long-term rates will rise substantially until short-term rates approximate or exceed long-term rates. So long as banks can obtain larger yields on long-term obligations than on short-term paper they will not be anxious to switch. Records of the past indicate that long-term rates may decline or show little change while short-term rates are increasing. Since a substantial rise in short-term rates is not anticipated in the next few months and a rise to the present level of long-term rates is

not to be expected until the credit situation requires vigorous action
by the Federal Reserve authorities, little increase in long-term rates
may be expected within the next ^{year.} ~~few months.~~

OPEN MARKET MONEY RATES



MEETING OF THE COMMITTEE ON BANKING LEGISLATION

January 12, 1937
10:15 A.M.

Present: Secretary Morgenthau
J. F. T. O'Connor
Leo T. Crowley
Marriner Eccles
Daniel W. Bell
Jesse Jones
Cyril B. Upham

Crowley: In the Banking Act of 1935 there were certain provisions made regarding liquidations, and the thought that we have in our mind - we do not want to interfere with anything that Mr. O'Connor wants, but we do not want anything to interfere with us. And we recommended last year that the enabling clause be put in there to the effect that nothing in this Act would affect Section 12 of the Federal Reserve Act of 1935, regarding the powers given to the Federal Deposit Insurance Corporation. And this deals with liquidation of closed banks and stockholders and things like that, which in our judgment is perfectly all right providing it is restricted to banks closed prior to January 1, 1934, because the banks that have closed since January 1, 1934, were insured banks. And the thing that we want is that enabling clause in there that protects the Federal Deposit Insurance.

Now, there is a disagreement between Mr. O'Connor and ourselves as to whether it should go in. But our argument is that if it is not necessary it does no harm, and if it is necessary it is a good provision.

O'Connor: Which one of the bills is that?

Crowley: It deals with the allocation of expenses.

O'Connor: Which one? Here's the first - Capital Requirements. Now, is that.....

Crowley: We see no objection that that be included in the legislation.

O'Connor: Let's take it up here. It has nothing to do with capital requirements for conversion?

Crowley: No, we don't care about that.

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- O'Connor: Just so we can get them straight on this memorandum. Now, the next one is Liability Upon Shares of Common Stock of National Banking Associations Resulting from the Conversion of a State Bank into the National System. Nothing to do with that.
- Crowley: No.
- O'Connor: That's the second. Then Number Three - Dividends on Common Stock. Nothing to do with that.
- Eccles: I had something to say on Number Three.
- O'Connor: Well, let's clear up this first.
- Crowley: What we care about is.....
- Upham: It's Number Five on Page 3.
- Eccles: Number Five.
- O'Connor: Well, I have another one.
- Upham: Next page. You are on Page 2, Dividends on Common Stock.
- Eccles: Regulatory Powers, next page, 3.
- O'Connor: Page 2, Number Three.
- Upham: No, Page 3, Number Five, is the one that Mr. Crowley is referring to.
- Jones: He was going to read that finally. I'm sorry, I thought we'd get clear on these and....
- A.M. Jr: What Mr. O'Connor wants to do is to go over every one and you (Crowley) check the ones that you....
- O'Connor: Now, on Page 3 is this Number Four - Fees for Examination of Credit Unions.
- Crowley: We don't care for that.
- O'Connor: Number Five is Regulatory Powers. Now, is that where you.....

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- Crowley: We'd like to have in the Regulatory Powers that any regulatory power to be given is - it doesn't affect the legislation of 1935. In other words, what we want, gentlemen - we don't want any powers now that are going to give any right or regulation that cancels powers given to us in 1935. If this is legislation that deals with things prior to Federal Deposit Insurance, that is perfectly satisfactory, but not since.
- O'Connor: Oh. That applies to Five, Leo?
- Crowley: That's right, on Page 3.
- O'Connor: Now, on Page 4, Apportionment of Salaries.
- Crowley: Now, wait a minute. That's National Bank rules and things like that. Then we get over into Salaries. The only thing that we say - we don't care what you allocate in the way of salaries to your own offices or to the receiverships that you had prior to 1934, but we want no salaries allocated to our receiverships since January 1, 1934, because that is an expense that we carry.
- Jones: You want no - no additional salaries? You are supposed to carry it?
- Crowley: Yes, we do carry it.
- Jones: Then you don't want additional.
- Crowley: That's right.
- Jones: In other words, you don't want the two offices allocating salaries against one receivership.
- Crowley: How he allocates his expense throughout his offices is none of our business.
- Now, that - the simplest thing to us is that if you will just simply put in that clause in there that nothing in this Act will affect Section 12 of the Federal Reserve Act of 1935 as far as Federal Deposit Insurance is concerned, that will take care of our end of the thing.

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O'Connor: Well, of course, I think Mr. Crowley's statement is probably too broad. What he says - that we carry the expense of the receiverships - that, of course, is not a fact. The expense of receivership is borne by the receivership trust and Congress has imposed upon the Comptroller's office certain duties and responsibilities with reference to the receivership trust, because the change is that the Comptroller shall appoint the Federal Deposit Insurance Corporation, and then with elaborate detail the statute goes on. Therefore, it is the trust that pays the expense.

Now, whatever expense is incurred by the Comptroller's office has got to be paid by the trust, and the same with the Federal Deposit; whatever expense is incurred there, it's got to be paid from the trust.

Now, from Mr. Crowley's statement, the Comptroller shall have no power for allocating or charging any expense against a trust for which he is responsible.

H.M.Jr: Let me ask you a question just for my information, see? This question of issuing - letting the Comptroller have powers to issue rules and regulations, see? - is that something new?

O'Connor: That is new to this extent, Mr. Secretary: that we found a number of cases where we don't want to have a specific statute, but we feel we ought to have - to be able to adopt a rule or a regulation. For instance, let me give you a concrete illustration. At the present time, a National Bank can keep the key of the owner or renter of a deposit box in the bank, so that the bank or the employees may have access to that. We feel that in no case should a National Bank have any control or even be able to receive the key of that depositor. If he keeps it in there - we have had a lot of claims filed, we have had a lot of trouble.

H.M.Jr: Well, let me ask you this. If you are given this authority to issue these rules and regulations, they in effect become a law, don't they?

O'Connor: Yes, sir.

H.M.Jr: Well, why - if Congress is going to give that authority, why shouldn't that authority be given to the Secretary of the Treasury?

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O'Connor: Oh, I'd rather have it there.

H.M.Jr: What?

O'Connor: I'd rather. That would be satisfactory to me, perfectly.

H.M.Jr: I mean why shouldn't - I mean as far as I know there is no other of the 17 agencies we have that can issue rules and regulations. Take Customs, for instance. The Commissioner of Customs can't issue a rule and regulation without submitting it to me for my approval.

O'Connor: That would be satisfactory to us, Mr. Secretary.

H.M.Jr: Isn't that right, Bell? I mean the Commissioner of Customs....

Bell: Yes

H.M.Jr: What?

Bell: That's right.

H.M.Jr: They go out as Treasury decisions, don't they, huh? - Treasury rulings?

Bell: Well yes, that's right. But they have regulations, too, which are issued, but you usually approve them.

H.M.Jr: But the authority rests -

Bell: - with the Secretary of the Treasury.

H.M.Jr: Well, wouldn't that possibly ease this situation off a little bit?

O'Connor: Sure.

Crowley: You mean the two (pointing to O'Connor and himself)?

H.M.Jr: Yes

Crowley: No, that don't do it.

H.M.Jr: What?

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Crowley: For this reason. The Federal Reserve Act of 1935 gave to the Federal Deposit Insurance certain rights. Now, we are not interested in what regulations or powers the Comptroller has for his own office, but we don't want any misunderstanding that anyone's got a right to regulate that's going to affect the Federal Deposit Insurance Corporation, other than - unless you change the law.

Now, as far as receiverships are concerned, that's been a controversial thing for a long time. We haven't been entirely in accord. However, we haven't had any difficulty in getting along. But eventually that's got to be faced to determine the definite powers. But in the meantime, until you get in the place that you are going to face a lot of these things, all we ask is that you don't permit anything that is going to make this any more conflicting than it is now. When Congress gives the right to do certain things, I don't think we ought to regulate - to in some way misconstrue what Congress intended.

Jones: In administration?

Crowley: In administration.

Now, this thing can be simplified so simply. If there is nothing in this bill that conflicts - and we aren't asking for anything at all - if there is nothing in there that does conflict, then we want it.

McCles: Let me give the language that I think ought to go in. Now, we are interested to the same extent, because the Federal Reserve Board has the responsibility of issuing regulations, and of course all National Banks are members of the Federal Reserve System, as well as certain state member banks, and in going over this matter with our Board and staff this is what we have to say about it:

"Specific matters which may be made subject to the proposed regulatory power should be expressly set forth in the law, and the regulatory authority should apply to no others."

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Now, that is - now, if you don't do that, see, then this is an alternative suggestion:

"If, however, a broad and a general regulatory authority is to be given to the Comptroller of the Currency, it should be qualified with the proviso that the Comptroller shall have no power to make rules and regulations covering matters which under the law are within the jurisdiction of other establishments of the Government, and that any regulations prescribed by the Comptroller pursuant to the proposed authority should not be in conflict or inconsistent with regulations issued by other Governmental establishments."

Now, that would cover F.D.I.C. and all. It's general.

Jones: You don't think that would be consistent with your suggestion, Jefty?

O'Connor: I don't know. I haven't given it any thought.

Eccles: Otherwise, with three agencies, at least, we know - maybe more - issuing regulations.....

O'Connor: Now, Marriner, that's on Five, isn't it?

Eccles: That's on Five, yes.

O'Connor: I want to make a note. And will you let me have your suggestion there? Well, Leo, does that meet yours or not? Does that meet your....

Crowley: I think it does. I want to study that a little bit.

O'Connor: Oh yes, of course.

H.M.Jr: I think we'd want to study it.

Jones: Henry, I'd suggest that these three boys get together by themselves and see if they can't reconcile their views.

H.M.Jr: On this particular point?

Jones: Yes, and then come into the Committee with something where they are in agreement, if that is possible.

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- O'Connor: I think we can shorten it a little more. Mr. Crowley's point on whatever particular section here - all of them, for that matter - if that is covered by Marriner's point, that - and is agreeable to the Treasury over here - well, that will clear up then all the objections that the Federal Deposit Insurance Corporation has.
- H.M.Jr: Well, the only point, as I say - you have agreed to that - if any agency which is in the Treasury gets the authority from Congress to issue rules and regulations - I mean I want it to go over my signature. I mean I don't want an agency in the Treasury issuing rules and regulations that I don't have the control over. I either want the agency in the Treasury or out of it.
- Jones: You mean to have it approved by and with the consent of the Secretary.
- H.M.Jr: No, just read the way all the other authority....
- Ecclis: That means that somebody else, an Assistant Secretary, could do it.
- H.A.Jr: No, just have it read that rules and regulations - I don't know what the legal language is, but I mean - I mean there might be perfectly well some other Secretary of the Treasury or some other Comptroller, and the Comptroller issue regulations which would be absolutely - I'd be opposed to it, but I'd have nothing, I couldn't stop it.
- So I simply say that as long as the Comptroller's office is in the Treasury and we are going to get authority to issue rules and regulations, I want that authority to rest with the Secretary of the Treasury; that's all. And so far as I know, I don't - we haven't - there hasn't been any conflict so far. I'm sure the Comptroller won't object to that.
- O'Connor: Oh no. In other words, Mr. Secretary, on Regulatory Powers - now, if that is introduced, then the point there is that whatever regulatory powers are given should in usual language be issued under the Secretary of the Treasury. Is that it?
- H.M.Jr: Yes.

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O'Connor: Now we've got that out of the way.

H.M.Jr: Then you are going to consider Eccles' suggestion as to his language.

O'Connor: That's right.

H.M.Jr: So that whatever the Treasury regulations are should not be in conflict with any other regulation of any other financial agency of the Government. Isn't that boiling it down, Eccles?

Eccles: Yes. Within the jurisdiction or in conflict with other establishments of the Government.

H.M.Jr: Well now, Mr. Crowley wants to study that, Mr. O'Connor wants to study that, and why don't we say that - that Mr. Jones' suggestion of you three people studying it, and let us study it with O'Connor and then if we are all in agreement we'll just report back it is cleared.

O'Connor: Well now, Mr. Secretary, to carry out your thought on this Regulatory Powers, just so - we don't want to be inconsistent with the present law. Would you ask Congress to amend all the other statutes? Because there is a great amount of that. For instance, I'll give you a very important one where Congress imposes a duty upon the Comptroller of the Currency to issue regulations with reference to the securities purchased - that can be purchased by the Bank for investment purposes. Now, there is a great many of those statutes which have been there for sixty years or more, and to be consistent, I just wanted to point out the....

H.M.Jr: Well, it's never been raised with me before, but I have never felt since I've been here that the relationship between the office of the Comptroller of the Currency and the rest of the Treasury is satisfactory, because it is different from anything else in the Treasury.

And the way I feel is like it is in this Federal Alcohol Control when the question came up as to how to handle Federal Alcohol Control. I mean my position with the President is that "Please either put it in the Treasury or definitely take it out."

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This man Alexander is there. He's there now. Congress passed a law creating a Commission. The President never filled the Commission, so therefore it is still there. He has to submit all his salaries and all his appointments just the way the others do. He holds the hearings on his rules and regulations and they send them up to me and I've got to sign them, but I can't participate in the hearings. I can't participate in the hearings. Isn't that right, Dan?

Bell: I don't know, now.

H.M.Jr: Well, it is. I can't. I can send a man there. In one case I did send a man - this is just in the family - and they wouldn't even let him sit up at the table. He had to go out of the room and find a chair to find a place to sit. So I went to the President. "Now please, if you want me responsible for Federal Alcohol Control - either give it to us, make it a part of the Bureau of Internal Revenue, or kick it out and make it an independent Commission, because I can't be responsible." And I feel that if it is going to raise - I am satisfied to leave it as it is, but if we are going.....

O'Connor: That's what I wanted to call your attention to, Mr. Secretary.

H.M.Jr: If we are going to change it, I'd like to make it either independent or an integral part of the Treasury.

Jones: That's the Comptroller's office.

H.M.Jr: That's the Comptroller's office. I either want to be really responsible or not. I mean you, for instance - you can't appoint an Examiner...

O'Connor: Not without your approval.

H.M.Jr:unless I sign it.

O'Connor: Or an Assistant Examiner; I can't appoint an Assistant Examiner.

H.M.Jr: But, on the other hand, you can do a lot of things over

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which I have no control.

O'Connor: That's right. Like the one I mentioned and a great many others.

H.M.Jr: Now, up to now there's been no conflicts.

O'Connor: Never.

H.M.Jr: But the day might come when there would be, and the responsibility on both you and I is too heavy to have this uncertain authority.

O'Connor: That's right.

H.M.Jr: And if we are going to go into it at all, I'd rather clean it up one way or the other.

O'Connor: That's why I wanted to call your attention to the fact that...

H.M.Jr: I mean I've had this out with the President and - on Federal Alcohol Control. We have had it out, and my position there has been absolutely either put it in Internal Revenue or kick it out.

Eccles: Your position on this is to clarify your relation also on this point, but on the whole issue....

H.M.Jr: If we are going to go into it, I'd like to clear up our whole relationship - our whole relationship, because some day there might be a very important thing come up and the President might perfectly well send for me and say, "Why didn't you do so and so?" And I'd have to answer that I didn't have the authority, and he'll say, "Why didn't you bring that to my attention three years ago?"

Bell: It seems to me this question....

H.M.Jr: I mean I didn't - this isn't - I want to say to O'Connor I didn't know this was coming up, but you've asked me if you do the one regulation -

O'Connor: Yes

H.M.Jr: - now about all the others. If you want the answer to

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the question, if we do this we ought to do it all.

O'Connor: That's why I wanted you to know that there were a great many others.

H.W.Jr: Dan?

Bell: It seems to me this prohibition here against issuing regulations in conflict, as far as the Treasury is concerned should work both ways. No one else should issue regulations in conflict with those of the Treasury. It is as strong one way as it is the other.

Eccles: Well, except here you are asking for....

H.W.Jr: No, I think that's a very good point.

Eccles: Except you are asking for a change in broad regulatory powers.

Bell: Well, there should be coordination.

Eccles: Well, so far as I know, we don't have power to.....

H.W.Jr: No, I think he's right, that both the Federal Reserve and the Federal Deposit Insurance can't issue regulations which are in conflict with the Comptroller's office. That is a good point.

Eccles: The regulations we can issue are specific. Now, what you are getting to here is getting away from specific regulatory powers into the field that it becomes general. Now, I would say that if we were asking, or the Federal Deposit Insurance Corporation or any other agency were asking, for general powers with reference to issuing regulations, then it should also have that specific language. I don't object to having that language now, even though there is no real necessity for it.

Crowley: Well, the only right of regulation we have, Marriner, is the right of regulation where it is definitely specified in the law. That's the regulation that we have; you have too.

Eccles: That's right.

Crowley: Now, I have no objection in the world that - we

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certainly wouldn't have any right to issue a regulation that would conflict with something that you people have already issued regulations on. But we ought to try to be uniform; that's my point.

H.M.Jr: May I say at this point - I should have said this thing at first, and that is - and I did interrupt for one minute - and that is this: I think when we get through with this that we want to decide do we want any banking legislation this year. Now, that - that, I think - I just want to raise that whole question before we leave here today, and - do we want any banking legislation?

O'Connor: I think that is very important.

H.M.Jr: What?

O'Connor: I think that is very important.

H.M.Jr: I wanted to say that at the beginning, but I didn't. But I want to say now that I don't - I'd like to reserve the right when we get through this morning to raise that point. Do we want any banking legislation?

Now, with all the interruptions, will you please go on?

Jones: That's very pertinent.

H.M.Jr: What?

Jones: That's very pertinent.

H.M.Jr: I want to have the right to raise that question at the conclusion of this meeting.

O'Connor: Well now, the only other one, Mr. Secretary, that I have is the banking code - or is the building and loan code. Now, the Governor has - he's got some other suggestions.

Eccles: Well, just one. There is this regulatory matter and the other. No need of taking time up there because I think our fellows can get together with reference to Provision Three, Dividends on Common Stock.

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O'Connor: Oh yes.

Eccles: That's rather technical. It gets down to a question of definition of surplus funds and undivided profits. There is also the question of the bad debt definition.

O'Connor: Yes.

Eccles: Now, of course, we are interested in it, as I say, because these banks are all members and we have a joint - we use your examinations and we have a joint relationship in connection with it. And I would suggest in connection with Three, then -

O'Connor: Three, yes.

Eccles: - Dividends and Common Stock, that we might get together and see if we can't agree on some modification there. The only thing we had - this regulatory one was the only one that we had any strong objections to. On the other one we have suggestions that we think are desirable.

O'Connor: Now, Mr. Secretary, on the Dividends, there is the only point that my office is concerned about, and it concerns a great many of the National Banks. The statute provides that the National Banks may declare a semi-annual dividend. A great many of the banks - National Banks - have been declaring quarterly dividends. Frankly, we can't see any reason why a bank shouldn't declare a dividend whenever they want to declare it. But they keep writing us and we can't say, "Go ahead and declare it," because of the law.

Now, I have letters in there now from a couple of National Banks asking me what is going to happen. Well, I can't say, "Go ahead and declare them anyway," when the law says they may declare them semi-annually. Now, that is the only one point my office is concerned about.

Jones: That's been - how long did you tell me that's been in vogue?

O'Connor: About fifty years.

Jones: About fifty years. Now, they've been doing it...

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- O'Connor: Many of them, yes, because they are afraid of the Comptroller.
- Jones: But many banks declare quarterly dividends, and many - I'm guilty in that myself, and you called my attention to that. We pay them in December for the whole year.
- O'Connor: You're the worst transgressor I got.
- Eccles: The point we've got has nothing to do with that.
- Jones: When everybody else is through, I've got one suggestion and that's all..... And that's the point you raise, that the President has some very important legislation that he wants to get through and I think that the banking legislation ought to wait until that's finished.
- Eccles: You mean before it is introduced?
- Jones: Yes, before it is introduced. I think we ought to work together in the meantime, get an agreement, if we can, on these things.
- H.M.Jr: Well, may I say right along that line what we did. After all there was this emergency legislation. I think it's the first time, certainly since I've been in Washington, the three agencies walked up on the Hill together in complete accord. We saw all the Democratic leaders. Conference lasted two hours. We got everything which we were entitled to and left them with a smile on their face.
- Jones: Yes, everybody happy.
- H.M.Jr: Now, it was unique in my experience. It's never happened, I mean, before that we were able to go up there, the three agencies.
- Eccles: Two hours getting a unanimous agreement. That was....
- Jones: Not a discord.
- H.M.Jr: And we walked off and left a complete good taste in their mouths - "Well, at least here's three agencies" - and it's questionable whether the President will have to

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lift his little finger, whether they'll call up anybody at the White House to bother. Now, I think that before we went the President knew exactly what we were going up for and it had his approval.

Now, I think before we do this thing we ought to be in complete agreement if possible, then submit a boiled-down memorandum to him - maybe he'll see us - and maybe say, "Now, Mr. President, this is what we've agreed on. Here's what we can't agree on." What are issues, see?

Jones: And not do that, Henry, until these things - not just these emergency things, but these other bigger...

H.M.Jr: No, I want to be fair to these gentlemen. I think as soon as we have an agreement, then I'd submit it to him. Then it's up to him to say.

I mean I don't want to say - using Crowley as an example, because he wasn't in on this - let's say that Crowley needs something. I mean I think it's up to the President to decide. "Now, Crowley, you wait until after the first of February until we get these other things and then we'll get to that." Or he may say, "No, go ahead. It's all right. Introduce your bill."

Jones: Well, I understand at our last meeting that everybody agreed that we could get along without legislation, but some was desirable. That's my point. If the....

H.M.Jr: Well, I know what you've got in your mind, and from my own Treasury interest I'd rather wait. But I am chairman of a meeting and as such I should be impartial and I simply say that if we can agree on what we want, then I think we should let the President say, "Boys, I'd like you to wait," or "Go ahead."

Jones: He must say.

H.M.Jr: He must say, yes; that's all. We are not differing except that I don't feel that, as an impartial chairman, if we come to an agreement - as soon as we come to an agreement, I should submit it to the President. That's what I'm supposed to do.

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- Jones: I think that's entirely right. I reiterate what I think from this standpoint: the things that he is primarily interested in and that he thinks are important should be well along.
- H.M.Jr: As Secretary of the Treasury, I agree with you, but as chairman as soon as we've come to an agreement I feel I've got to give it to him and let him decide.
- Jones: Well, I have agreed to that right along.
- Crowley: Well, isn't the first thing, Mr. Secretary, that we've got to agree on - and that is what - Mr. O'Connor has his legislation and Warriner has his - as to whether we are going to have any legislation at all, or not, whether it is important that we have it. Now then, if it is important that we have it, then these bills that have been analyzed for both those organizations - and here we set Federal Deposit in the third position, right in the center. Now, if Federal Reserve is going to ask for things that are going to strengthen its position, and the Comptroller is going to ask for certain things that are going to strengthen his position with reference to Federal Deposit - because we are in this position: under the law we are acting under now, the Federal Reserve and the Comptroller admit banks to their system and we automatically insure them; but all we do is go around with a pack on our back and pay out the losses.
- Now, if we are all going to be content to sit here - and I am perfectly willing, if there is some particular technical legislation that does not in any way affect Federal Deposit Insurance - I am perfectly willing to go along. But this last page here in our mind definitely affects Federal Deposit Insurance and we just can't sit back and.....
- O'Connor: What page?
- Crowley: This Shareholders' Agent, on page 5.
- H.M.Jr: Will you discuss that while I leave you for a minute?
- (Secretary leaves room)
- Crowley: I don't know what you've got, Mr. Chairman. Do you have to have your legislation?

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Eccles: Well, we don't just have to have it, but we want it. We feel that this first one is very necessary and desirable - Separation of offices of Chairman and Federal Reserve Agent. We put these Chairmen on an honorary basis, but they are tied to the office of Agent by certain statutory provisions. Now, as long as a man is Chairman and Agent, then he feels that he's got statutory obligations that he shouldn't have as an Agent.

Now, for instance, in New York, Mr. Young, who is Vice Chairman up there - we'd like - we've talked to some - just between us - about having him take the Chairmanship. Well, he won't take the Chairmanship as long as the Agency is tied to it, because of the statutory requirement of the Agent, you see. And we've got several others like that and we've agreed that....

Jones: Say that again. He won't take the Chairmanship as long as the Agency is -

Eccles: The Federal Reserve Agent.

Jones: - the Chairman and Agent is one.

Eccles: Now the Assistant Agent holds the collateral. It is a clerical job. I mean the Agent is a clerical job and the Assistant always does it.

Jones: That's words.

Eccles: That's right, but the statutory requirements....

Jones: You're just talking about words. He's talking about words.

Eccles: Well, it's in the law.

Jones: It's in the law, but it doesn't change anything.

Eccles: Now, what we'd do is the Assistant Agent would be Agent and the Chairman would be only Chairman and not Agent.

Jones: No big objection to that.

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- Eccles: I talked to Senator Glass about it last year before we had - we had no legislation.
- Jones: Is that all you're asking for, that one?
- Eccles: No. If we are going to put that other in, we've got another one.
- O'Connor: We'd better wait until the Secretary gets back.
- Upham: I think Mr. Crowley expected to discuss this last one on page 5.
- Crowley: Well, on the Shareholders' Agent, it is just a case of where if we will all agree to put that one clause in there, that will take care of any difficulty we have. We don't want to interfere with his operation prior to January 1, 1934. I mean we're not interested in that.
- Jones: While we are waiting on the gentlemen, can I see you a minute (to Bell)? (Bell and Jones go aside and talk)
- Eccles: Did you read our legislation, Jefty?
- O'Connor: I'm sorry to say I didn't.
- Eccles: Did you, Leo?
- Crowley: Yes, sir, I....
- O'Connor: I'm sorry.
- Crowley: The one where you are going to reduce the capital requirements of State banks and also the provision for those in competition with the State banks....
- Eccles: You mean branch banking?
- Crowley: Yes, branch banking and capital - branch banking, mostly. That's going a long ways back. We're going back to meet the States in place of the States going to....
- Eccles: How you going to meet - bring the States up to meet you?

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Crowley: We aren't going to improve our position by going back and meeting them. Now, the Comptroller has his minimum requirements, and while he doesn't get all the banks in the world, he gets - any bank with reasonable size capital, he's going to get it.

(Secretary returns)

H.M.Jr: Got it all fixed?

Crowley: All fixed.

O'Connor: Now, Mr. Secretary, the question which you raised - that probably ought to be decided first, because then we can dispose of a lot more. Now, I'll state the position, as I see it, from our office.

I am very much interested in the building and loan code for the District, and that doesn't concern any of the other agencies. And I just want to say that I - at least, I think the Treasury's responsibility is to submit a bill anyway to Congress, because we recommended it with your approval a year ago, and then in July this big smash-up came of a building and loan. Now, our responsibility is done when we dump it over there. Now, that is about the building and loan.

Now, secondly.....

H.M.Jr: Now, you mean - give the ones that you think are really important.

O'Connor: That's the most important.

H.M.Jr: What item is that on your list?

O'Connor: That's the last one.

Upnam: No, no, it's on page 4.

O'Connor: Number Seven on my list.

H.M.Jr: I mean that you consider really important.

O'Connor: I want to get a bill to put the responsibility in

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Congress and the Treasury steps out of it. Now, the other agencies have no interest at all in that bill except the Treasury, because Congress has put the supervision of building and loan associations under the Comptroller.

Jones: Jefty, just a minute. This is Credit Unions here.

O'Connor: Yes, that's what I'm coming to. But this is 7 on page 4.

Jones: Go ahead, all right, I'm sorry.

O'Connor: Now, a very small bill, but an irritating little situation is Credit Unions in the District. That doesn't concern any other agency except the Treasury and the law provides that the Comptroller must examine the credit unions in the District and make a charge of five dollars.

Now the credit unions have grown now so their assets are upwards of a million dollars or more, and the office cannot examine at five dollars, and the only thing we have asked is to be paid the actual cost of examination or take it away. But we have no funds here and I am using National Banks' funds to do something I am not sure that we should do. But what can you do? The duty is there.

Now, Carter - Senator Glass last year was very much in favor of that. And the Public Counsel for the District, or whatever he is called, came up to argue with him and Glass said to him - he said, "Well, who do you think should pay it?" He said, "You've got the unions. All he is asking is to be paid the cost of examination." "Now," he said, "I don't want to listen to a man that comes up here and makes an argument like that."

Now, that one.....

H.M.Jr: That also affects the District?

O'Connor: Yes, sir.

Jones: How big a problem is that?

O'Connor: Well, it's quite a problem. They've got now about how many?

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Bell: I don't know, but I assume most every department has their credit union. The Treasury has one. And you've got to examine them.

O'Connor: We've got to.

H.M.Jr: Nobody guarantees them?

O'Connor: No, no.

Bell: It's an employees' organization.

H.M.Jr: Well, we've got certain responsibilities and certain supervision.

Bell: It's in Farm Credit.

Upham: That's right.

Eccles: Why don't they examine them?

Bell: Well, they do, I think, but Mr. O'Connor is in charge of all banking operations here.

Jones: Are you directed or committed or authorized?

O'Connor: I am directed to do it. No choice about it. No, if I had, I wouldn't even bother with it. I'd just step out of the picture.

Jones: I see.

O'Connor: Now, that's that. Now, the only other one, Mr. Secretary, that I'd be interested in having is just the amendment on the payment of dividends, leaving the statute exactly as it is with the exception of giving the right to the banks to pay dividends as the directors.....

H.M.Jr: Well, they are doing that now.

O'Connor: Lot of them won't do it.

H.M.Jr: I mean lot of them are doing it.

O'Connor: Oh yes.

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H.M.Jr: Well, that isn't something that you....

O'Connor: That's right.

H.M.Jr: What?

O'Connor: That's right.

H.M.Jr: But they are - it's being done.

O'Connor: That's right. By a great many of them.

H.M.Jr: So I wouldn't say....

O'Connor: No, can't say that is necessary.

H.M.Jr: All right.

O'Connor: Then that's my - if I can then get those two bills, building and loan and Credit Unions.....

H.M.Jr: Now, those are the....

O'Connor: That's right.

H.M.Jr: Those are the two things you feel you have - you are charged with responsibility and can't meet it.

O'Connor: That's right. That's the only thing, and if the other agencies - if that's all right with them, then I'm out of the picture.

Eccles: Except those two.

H.M.Jr: I think that's more than fair.

O'Connor: That's what I'll do.

H.M.Jr: I think that's more than fair.

Jones: (To Eccles) Are you generous?

Eccles: It isn't a question of being generous.

H.M.Jr: What?

Eccles: It isn't a question of being generous.

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H.M.Jr: Do you mind my interrupting? Because I know yours is so much bigger. Do you mind just a second?

Eccles: Go ahead.

H.M.Jr: Is there anything that you feel that you've got to have (to Crowley)?

Crowley: No, we'll go along.

H.M.Jr: You'll go along....

Crowley: With nothing, providing that is the general policy.

H.M.Jr: You are willing to ask for nothing if O'Connor - and still see O'Connor ask for those two things?

Crowley: That's right, sure.

H.M.Jr: What?

Crowley: Sure, sure.

H.M.Jr: So your position will be that.....

Crowley: That's not anything that we object to.

H.M.Jr: There is nothing that you have that is as....

Crowley: That's right, that's right, we'll go along with those two and not ask for anything.

H.M.Jr: Then, now, the whole thing rests with Marriner. That's the way I wanted it.

Eccles: Well, there is some of this....

H.M.Jr: (Laughing) I thought you'd look at me.

Jones: He didn't hear that.

H.M.Jr: I said that's the way I wanted it.

Upham: With a managed currency.

Crowley: Been laying for you, Marriner.

Eccles: That's all right. That won't be the first time.

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Bell: He's still a diplomat.

Jones: The average fellow, when you tell him the story, you think he is listening to you, but he is waiting to get through so he can tell one.

H.M.Jr: Now, Marriner, the floor is yours.

Eccles: This Number One here - Separation of offices of Chairman and Federal Reserve Agent - that is very necessary. That - we have put all these Chairmen....

H.M.Jr: You haven't got any memorandum for us, have you?

Upham: He had it revised and I don't have copies of the revision, so.....

Eccles: We haven't drafted the legislation. We have just stated what it is.

H.M.Jr: But I mean this is the last one?

Eccles: This is the last one. The Board's been over this one.

Jones: I assume there's no objection to this first one. That doesn't conflict with anybody else, does it?

H.M.Jr: But is there something that is....

Jones: Is it necessary?

Eccles: It is.

H.M.Jr: Why?

Eccles: Before we had a highly-paid Chairman; we had a Governor. They changed the damn set-up last year, didn't complete the job, and in the rush of things this is just one thing that was dropped out.

Bell: Well, you've been operating on it, though.

Eccles: We haven't got a Chairman in several places.

Jones: Well, if you had a paid Chairman he could be the Agent.

Eccles: Yes, but we don't want a paid Chairman. We've been

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fighting to - we've got them on an honorary basis, and the minute we get 12 paid Chairmen.... Now, you see, the law - the President now in the law is the Chief Executive Officer - made these Governors Presidents and Chief Executive Officer, and we have transferred most of the functions of the Chairmen's office to the banks, so as to get away from the cleavage - terrible cleavage - Chairmen here and Governors here. We had a constant cleavage.

Jones: I don't see any objection to that if you're going to have banking legislation.

Crowley: Well, I think this, Jesse, that that isn't anything particularly, but you've got to go on down through there, because this won't in itself cause a row, but how big a row will you get as you get down the list.

Eccles: Number Seven is Dividends of Federal Reserve Banks. Now, as it is today, the Board has nothing to say about dividends. These various Federal Reserve banks declare a dividend; it's six percent cumulative. They've always paid a flat six. Some of them individually haven't made it. Now, if one pays it and the other doesn't, it raises hell.

Now, what we want to propose is that it be a four percent cumulative, see, and the Board then be given the power with reference to the other two, so that if they make it and feel they should pay it, O.K., but at least you've got a fixed four percent instead of the six percent.

Crowley: Should that be controversial particularly?

Eccles: Well, it would be controversial as far as the member banks are concerned. The member banks would want six percent mandatory. Now, what we want to do with it is put it on a flat four percent basis, and then the Board wants the discretionary power as to whether or not the other two should be paid. That gives us a little bit of leeway, so if we go through bad times as far as income is concerned.....

Jones: There seems to be no objection to that one if you have banking legislation.

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- H.M.Jr: But is Eccles making the separation? There's two - the things that we have no objection to and then the things that he feels he's got to have.
- Jones: He's got to have the first one.
- H.M.Jr: What?
- Jones: The first one.
- H.M.Jr: Well.....
- Eccles: Yes, I think so.
- H.M.Jr: Supposing you don't get it. You'll function just the same.
- Eccles: I suppose we could have gone along the last twenty years without....
- H.M.Jr: I wouldn't - if you don't mind my saying so, I wouldn't put that in "must" legislation.
- Eccles: Well, why - what objection could there be to asking for legislation this year? What reason do we have to expect it will be easier next year to do it?
- Crowley: Well, Marriner, isn't this the thing that we have all got to face on legislation eventually: That the Banking Act of 1933 and the Banking Act of 1935 did certain things. Now you've got Government reorganization coming along here, which undoubtedly will sooner or later affect the banking set-up. Now, if we were going to sit down and work out legislation that we all would like to see, make it more efficient for the operation of the bank supervision and bank chartering, why, there are a lot of things that we'd love to have. So if there's something that you need particularly to meet your emergency, why don't you take that and then try and leave it alone until we all determine what this whole Government reorganization amounts to?
- Eccles: It doesn't mean anything as far as banking is concerned. I can tell you that right now.
- H.M.Jr: I'll answer your question, Why isn't this year as good as next year? I think this year is as good as

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next year, but I think that some time somebody's got to decide a lot of fundamental banking legislation and I don't think that we are prepared for that. And the position that I take as Secretary of the Treasury is this: that I think until we are prepared to really make the fundamental things a lot of us are thinking about, that we should ask for the minimum for fear that Congress will introduce some kind of legislation and pass it which we may not feel is in the best interests of the financial agencies. Now, that is my whole position. Now, we've been doing a lot of sparring around here. We haven't got down to fundamentals here. And I think until the President will give us a lead or direct us to go at this thing thoroughly, my whole feeling is we should ask for the minimum. That's the - and this year or next year or the third year, I mean - and I think if we introduce some Congress is going to introduce a lot and we are going to get something which might be quite harmful. That's the whole thing.

Eccles: Don't you think we might, if we introduced.... Of course, you've always got the danger of additions and amendments if you've got anything. My thought is if we are going to have any at all and if we can confine the legislation to that which does not interfere with and cannot be controversial so far as the other agencies are concerned.... Now, I recognize so far as the Congress itself is concerned, any legislation we may introduce, don't care what it is, somebody on the Hill might object to it. But so long as the legislation that I may propose - that Sec and Jefty have no objection to it - or the legislation that we may propose, we may have no objection - that it is - it would be of a non-controversial nature from an Administration standpoint. If we are going to have any at all - and I can't see any objection to including that type of legislation.

I agree with you that where it gets into fundamentals of our banking set-up you've got to leave it alone or not have any at all.

B'Connor: Well now, Marriner, let me answer from my point.

Eccles: I would prefer to have absolutely none, just forget

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the thing and go along, if we are going to have to go through everything like that, but I did want to get some of these.....

- Crowley: Now, these things - all that Jefty wants is that Credit Union and that wouldn't be a hell of a lot for him to absorb, and the building and loan - they've lived for 30 or 40 years of that. We'll go along with you without any - the three of us go without any legislation.
- Eccles: For how long?
- Crowley: Well, there's no use of going into this banking legislation until you go in knowing, as the Secretary says, where in the devil you're going.
- Eccles: Well, this Chairman and Agent thing - we're in a tough spot on this thing.
- H.W.Jr: Listen, Harriner, you'll be in a great deal tougher spot if some of those boys up there suggest some of the things that they've got in mind and pass it.
- Eccles: Well, they won't; not much chance.
- O'Connor: Mr. Secretary, my legislation will not go before the Banking and Currency Committee. It goes before the District Committee. And last year it was passed in the House - the Credit Union by the District Committee.
- Upnam: No, it's not banking legislation.
- Jones: That's your Credit Union and building and loan?
- O'Connor: Yes, sir, it's a District matter.
- H.W.Jr: That throws another new light on it; I think he should have it if it doesn't go before Banking.
- Jones: That is something.
- O'Connor: And last year it actually - the Committee on the District in the House passed the Credit Union.
- H.W.Jr: Then that makes it simpler. Do we want to propose any legislation to go before Banking and Currency?

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Jones: For the time being I would say no.

Eccles: Well, you mean not this session.

Jones: I mean for 60 days.

Eccles: Well, that's all right. That suits me.

Jones: I mean just let the thing go for 60 days.

Eccles: What we've got to do.....

H.M.Jr: Well, 60 days is the first of March.

Eccles: That's right, the first of March.

Jones: I mean you can meet again and put it off 60 more days.

(Hearty laughter)

O'Connor: I knew it was something. I knew it was coming along some place.

H.M.Jr: Now let's just sum up that we are all agreeable that these two things, building and loan and Credit Union, should go up before the District Committee, and outside of that.....

Eccles: We defer action.

H.M.Jr:we defer action and we meet again on the first of March.

Eccles: Unless one of us thinks for some reason his.....

Jones: The tenth of March.

H.M.Jr: Why?

Eccles: Well, that's close enough - the first.

H.M.Jr: You say first and you say the tenth.

Jones: I suggest the tenth of March. You can get them any time.

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- H.M.Jr: Well, let's make it the first.
- Jones: All right, I'll do that with you like I agree with my wife - we make it unanimous; I agree with her.
- Eccles: We've got certain legislation here that I'd hate to get through this session without, and I'm willing to wait 60 days for it.
- H.M.Jr: Well, Marriner was willing to postpone it for this session, and you said....
- Eccles: No, I want it; no, sir.
- H.M.Jr: You were ready to give it up for this session.
- Eccles: No, I wasn't.
- Jones: I expected that he'd get good-natured and forget it entirely.
- Eccles: Well, I'll be practical. All the Board and staff members are - there's certain of this legislation they are pretty strong for.
- H.M.Jr: It's swell to be able to have a Board and a staff.
- Jones: To hide behind.
- Eccles: Well, that's right. Take - here's one for instance, the establishment of discount rates. The damn law says every 14 days. These Reserve banks - it puts them up against a position here of calling special Board meetings every 14 days, instead of regular meetings at a weekly day. Every 14 days - once it's Monday, next time it's Tuesday - it makes it inconvenient and they all kick.
- H.M.Jr: Well now, we are subject to call, at Mr. Jones' suggestion, the first of March. Subject to call.

January 12, 1937.
11:20 a.m.

- Glass: I'm fairly well and hope you are.
- H.M.Jr: I'm fine. Senator - two things - we just adjourned a meeting of our Committee on Banking here - you know the head of the various agencies.
- G: Yes.
- H.M.Jr: And I think you'll be pleased to learn that we've decided that we would not introduce any more legislation and we'd have another meeting on the 1st of March.
- G: Yes.
- H.M.Jr: But there's two exceptions - there's two pieces of legislation which do not go to your Committee. Something which the Comptroller wanted that has to do with the District - one is the Building and Loan - the confirmation and the examination of these Credit Unions.
- G: Yes.
- H.M.Jr: And those two things - he's charged with that responsibility and that would go to the District Committee and we all felt that inasmuch as he was charged with that responsibility he ought to be able to clear that up. I don't think anybody will object to that.
- G: I don't think so.
- H.M.Jr: But with that exception we adjourned and decided we'd not bring any more legislation up on the Hill and then we'd have another meeting on the 1st of March and talk it over again.
- G: All right.
- H.M.Jr: I thought you'd be pleased to hear that.
- G: Yes - that's - that's all right.
- H.M.Jr: Now - ah - we got word from the Clerk up there that there was going to be a meeting of your committee tomorrow at 10 o'clock.
- G: Yes.

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H.M.Jr: And I wondered if you wanted anybody from the Treasury so we could get ready, if you wanted us.

G: I - I may and if I do I'll let you know.

H.M.Jr: Would you?

G: Yes.

H.M.Jr: So that we could have a little time to get ready.

G: Yes, all right I'll let you know before the day is out.

H.M.Jr: Thank you very much.

January 12, 1937.
11:23 a.m.

Operator: Dr. Burgess.
H.M.Jr: Hello
O: Go ahead.
H.M.Jr: Hello.
Burgess: Hello sir.
H.M.Jr: Burgess, I hear we have some wide swings in our government market?
B: Well not very. The intermediate bonds have been off some this morning.
H.M.Jr: Well they said some of them.
B: You can admit this then right along.
H.M.Jr: Yes.
B: Of course the whole answer is the uncertainty about these excess reserves.
H.M.Jr: Yes.
B: I think.....
H.M.Jr: Well why don't you tell them what you're going to do.
B: Oh well (hearty laughter)
H.M.Jr: (Laughter)
B: Well I think we ought to. (Laughter)
H.M.Jr: Well what are - how much in are you on the 32nds - \$50,000?
B: Oh well we're going in about \$50,000 - yes.
H.M.Jr: About \$50,000.
B: We haven't actually bought anything this morning.
H.M.Jr: I see.

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B: He says that there's bids in right through with the market.

H.M.Jr: Well the people tell me here there's some as much as 10/32ds.

B: Oh well that's just paper.

H.M.Jr: Paper.

B: That's just on paper.

H.M.Jr: Ah-ha. There's nothing to get disturbed about.

B: No - no - it's very quiet.

H.M.Jr: Ah-ha.

B: It's very quiet.

H.M.Jr: All right.

B: We'll see that their bids in there run regularly.

H.M.Jr: All right now make up your mind what you're going to do on excess reserves.

B: Well I think Marriner ought to
I think we ought to decide what they're going to do.

H.M.Jr: Yes.

B: That's the Federal Reserve Board. We've got nothing to do with that.

H.M.Jr: Oh - oh - oh.

B: (Laughter)

H.M.Jr: You're just the Fiscal Agents for the Treasury.

B: That's right.

H.M.Jr: O.K.

B: (Laughter)

H.M.Jr: All right.

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B: (Laughter)

H.M.Jr: (Laughter) All right, Burgess, goodbye.

B: Goodbye.

MEMORANDUM RE PREFERENCE ON SMALL SUBSCRIPTIONS

1/12/37

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Advance announcement in the last several offering circulars of the Secretary's intention to make allotment in full on cash subscriptions for amounts up to and including \$5,000 developed a definite and extensive abuse, in that multiple subscriptions for \$5,000 were entered through various sources by many subscribers for the purpose of obtaining greater allotments than the subscribers would have been entitled to on a straight percentage basis. Subscriptions in the preferred class totaling \$55,000,000, \$64,000,000 and \$95,000,000 were entered for the bond offerings in March, June and September of this year, manifestly far in excess of any possible legitimate investment requirements.

At a conference of Federal Reserve bank representatives held at the Treasury on May 12, 1936, opinion was divided as to preferential allotment - about half of the banks favoring a retention of the existing arrangement and others favoring no advance announcement on this point, decision to be made by the Secretary after subscription figures were reported. One bank suggested a reduction in the amount of preference and another favored an increase.

Prior to the December financing the matter was again discussed informally with the representatives of several of the Federal Reserve banks and on November 23 Mr. Bell, Mr. Broughton and Mr. Kilby discussed the question with the Secretary. Dr. Burgess was consulted in the course of this discussion. Allotment on a straight percentage basis, with no preference, was suggested. The Secretary, however, wished to be free to determine the basis upon which he would make allotment and, therefore, the offering circular was so drafted as to permit whatever action he might determine upon.

On December 2 Dr. Burgess and Mr. Matteson of New York, Mr. Sihler of Chicago, and Mr. Arnold of Cleveland, met with Mr. Bell, Mr. Broughton and Mr. Kilby to discuss various aspects of the coming issue, principally with respect to the matter of preference on small allotments and measures whereby uniform treatment might be accorded subscribers in the several Federal Reserve districts, to the end that subscribers wherever situated might as nearly as possible be restricted to reasonable and legitimate requirements.

In the absence of any advance announcement in the December offering and with about the same volume of total cash subscriptions as in September, subscriptions for \$5,000 and less declined from \$95,000,000 to \$74,000,000. This was an improvement over September but still evidenced material padding and, accordingly, the Secretary allotted in full subscriptions for \$1,000 and under. Subscriptions in this class totaled but \$3,300,000, which would indicate complete freedom from padding in this lower bracket.

*EW
AUB*

Prepared by: Lawrence H. Seltzer
Assistant Director of
Research and Statistics

MS 270

DATE January 12, 1937

TO Secretary Morgenthau

FROM Mr. Hans *MS*

Subject: The Trend of Short-Term Money Rates

1. Treasury Bills

During the first four months of 1936, the average cost to the Treasury of 273-day Treasury bills ranged from .07 to .13 percent per annum. Beginning on May 2, coincident with a doubling in the volume of the weekly bill offerings, the average rate on the 273-day issues rose almost uninterruptedly for several weeks, reaching .24 percent for the issues of June 13 and June 20. Immediately thereafter, when the volume of the weekly bill offerings fell back to \$50 millions, the average rate declined rather abruptly to .07 percent for the issues of July 4 and July 11.

On July 14, the Federal Reserve Board announced an increase of 50 percent in the required reserves of member banks, to take effect on August 15. The average bill rate thereupon rose to .12, .22, and .23 percent for the next three succeeding weekly issues, respectively. An irregular decline followed, the average rate reaching .08 percent on November 21, 1936.

During the past six weeks, the average cost to the Treasury of bills has risen again — coincident once more with an increase of \$50 millions weekly in the volume of the offerings (the increased amounts being for shorter periods than the usual 273-day issues). The average rates of the 273-day issues of December 26, 1936 and January 9, 1937, .29 and .33 percent, respectively, were higher than those of any of the previous issues of 273-day bills since the series of this maturity was started on March 2, 1935. The rise in the last six weeks has been accompanied by considerable public discussion of the probability of a further increase in the required reserves of member banks some time in January or February.

2. Treasury Notes

The average market yield of Treasury notes with maturities of 1 to 2 years was .089 percent on January 11, 1936, and .398 percent on January 9, 1937.

There was also an increase in the average market yield for Treasury notes with maturities of 2 to 3 years — from .504 percent on January 11, 1936, to .977 percent on January 9, 1937.

Treasury notes with maturities of 3 to 5 years, on the other hand, declined in average market yield from 1.202 percent to 1.173 percent between these dates.

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The market yields of all three of these maturity classes of Treasury notes have increased somewhat sharply since the end of November, when public discussion of a prospective increase in reserve requirements of member banks was becoming widespread. Between December 5, 1936 and January 9, 1937, the increases in the market yields of these three maturity classes of Treasury notes have been as follows:

1 to 2 years	.192 percent
2 to 3 years	.319 percent
3 to 5 years	.244 percent

3. Bankers' Acceptances, Call Money, and Commercial Paper.

The average rate on 90-day bankers' acceptances in New York City, which had been .13 percent since November 1934, rose to .16 percent in July 1936, and to .19 percent in August, at which level it has since remained.

Call money rates have remained unchanged at 1 percent since the middle of May 1936, when they were raised from .75 percent.

Open-market rates in New York City on 4 to 6 months prime commercial paper, as reported in the Federal Reserve Bulletin, have remained unchanged at .75 percent since about the middle of January 1935.

4. Factors Operating to Stiffen Short-Term Money Rates.

The principal factors operating to stiffen various classes of short-term money rates are the following:

(1) Increased and prospective further increases in member bank reserve requirements; Treasury bill rates appear to be particularly sensitive to this factor, because a large part of the net burden of increased reserve requirements falls upon the New York City banks, which provide the principal market for Treasury bills. Not only do the New York City banks normally carry a relatively smaller volume of excess reserves than other member banks, but, because of their large holdings of deposit balances of other banks, which have to draw upon such balances when reserve requirements are increased, the New York City banks receive a double impact from any increases in reserve requirements.

Secretary Morgenthau - 1/12/37 - 3

The confidential report of December 10, 1936, of the survey made by the Federal Reserve Board on the distribution of excess reserves among member banks during the first half of November includes the following statement: "In the aggregate the member banks in New York City have substantial excess reserves, amounting to \$734,000,000 during the first half of November 1936. However, a survey made as of November 4, 1936 of the reserve position of the 75 largest weekly reporting member banks showed that at that time the reserve balances of one of the largest New York member banks were insufficient by \$29,000,000 to meet a 33-1/3 percent increase in reserve requirements. Three other New York banks, somewhat smaller, had reserves insufficient by \$30,000,000, \$22,000,000 and \$17,000,000, respectively, to meet such an increase. This, of course, is entirely apart from the fact that some of these banks would have to provide additional reserve funds not only to meet the increase in their own reserve requirements but to meet withdrawals of balances by country correspondents."

It is natural to expect that New York City banks, among others, have begun to adjust their position with respect to the prospective further increase in required reserves; and that this factor would operate to stiffen the rates on Treasury bills.

(2) Altered prospects of Treasury financing: The increase in the market yields on short-term Treasury notes may be attributed in part to the prospective further increases in reserve requirements and in further part to the growing prospect that some or all of these notes may be paid off in cash at maturity rather than refunded into similar or longer-term obligations. The yields of our short-term note issues in recent years have reflected not only the level of short-term interest rates as such, but also the anticipated premiums that would be enjoyed by note holders as the result of the Treasury's practice of offering such holders preferential or exclusive allotments to refunding issues priced below the market. The growing realization that a reduction in the volume of the available amount of public debt securities is likely to take place in the near future -- in advance of the achievement of a strict budget balance -- has diminished the premiums which the market is willing to pay for the prospect of preferential allotments to refunding issues.

In this connection, the First Boston Corporation, one of the largest Government bond houses in the country, took the unusual step of declaring, in a letter to its customers dated November 28, 1936, in part as follows: "It appears, therefore,

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that any premium paid for special privileges through the turning in of maturing obligations for refunding obligations is a decided gamble in the case of all those maturing on and after September 1937, and probably only somewhat less of a gamble for those maturing in April 1937."

It is significant to note, as was previously brought out, that the average yield of Treasury notes of 1 to 2 years' maturity and of 2 to 3 years' maturity have increased over the yields of approximately a year ago, whereas the average yield of those with maturities of 3 to 5 years has declined. It is the shorter-term notes which would naturally reflect most sharply the diminished prospect of refunding on favorable terms.

(3) Increased commercial demand for bank credit: Between January 8, 1936 and January 6, 1937, the "other loans" of weekly reporting member banks increased by \$932 millions, or 19 percent. This increase, reflecting a larger aggregate volume of business, and larger inventories incident to such increase, as well as incident to the recent rise in commodity prices and a threatening labor situation in certain lines, may be expected to continue, after allowance for seasonal adjustments.

(4) A general feeling that the spread between short-term and long-term rates has been and is unduly wide, and that the narrowing of this spread will take place more largely through a rise in short-term rates than by a further pronounced decline in long-term rates: Long-term rates are inherently stabler than short-term rates. There have been frequent periods in the past when short-term rates have fluctuated substantially above and below long-term rates without pronounced effect upon the latter.

It is interesting to note, both in this connection and in connection with the preceding discussion of the improvement in the Government's finances, that during the decline in the bond market, which began at the end of November 1936, the longer-term Treasury obligations have given the best market performance. For this purpose, we may divide the outstanding Treasury bonds into three classes: First, those due or callable by 1941; second, those due or callable between 1942 and 1945, inclusive; and third, those not due or callable until after 1945.

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Between December 5, 1936 and January 9, 1937, the average yield of the first class increased by .221 percent; the average yield of the second class increased by .113 percent; and the average yield of the longest-term obligations increased by only .004 percent. Even after allowance for the inherently greater fluctuations in yield of shorter-term obligations as against longer-term obligations, the superior behavior of the longer-term bond issues during this period has been significant.

The foregoing review indicates that there are factors operating toward somewhat higher short-term money rates. There is no evidence as yet that these factors will be of sufficient strength in the near-term future to produce more than a moderate further rise in such rates. And there is no evidence whatever as yet of any near-term prospective increase in longer-term rates.

January 12, 1957.

MEMORANDUM:

Re: Legislation recommended by the Comptroller of the Currency in his annual report to Congress for the year ending October 31, 1955, which it is proposed to introduce at the coming session of Congress.

The legislation recommended by the Comptroller of the Currency, which it is proposed to introduce at the coming session of Congress, appears to be the same as that included in H.R. 12,447 and S.4510- S.4515, inclusive, 74th Congress, with the exception of the proposals relating to the building and loan code for the District of Columbia.

It is not within my province, nor is it my desire, to criticize legislation proposed by the Comptroller of the Currency which affects only the administration of his duties in the supervision of national banks. My sole interest in these proposed amendments is that they shall include provisions which will clearly and definitely state that they in no way supersede, conflict with, or limit the existing powers of the Federal Deposit Insurance Corporation.

My suggestions relating to the legislation proposed last year were presented in my testimony on May 11, 1956 before the Committee on Banking and Currency of the House of Representatives, a copy of which is submitted herewith.

No comments have been made previously relative to the proposal that the Comptroller be authorized to issue whatever regulations he deemed necessary for the performance of his duties, inasmuch as the House Committee had eliminated the provision. Since this proposal is to be re-introduced it is requested that it include a provision to the effect that no regulations to be issued under the proposed authority would in any way conflict with the existing powers of the Federal Deposit Insurance Corporation.

LED T. CROWLEY,
Chairman.

December 18, 1936

MEMORANDUM

Re: Legislation recommended by Comptroller of the Currency in his annual report to Congress for the year ending October 31, 1935, which it is proposed to introduce at the coming session of Congress.

1. CAPITAL REQUIREMENTS FOR CONVERSION. In many cases, state banks have heretofore effected the elimination of losses and depreciation on securities and have made adjustment of their capital structures by the reduction of their common capital and by the issuance of capital notes or debentures. These capital notes or debentures were issued because the laws of the state did not permit the issuance of preferred stock by such state banks. These capital notes or debentures do not constitute capital within the meaning of the provisions of the national banking laws. In some of these cases, the amount of common capital of the state bank is not sufficient to meet the requirements of the national banking laws as to the necessary amount of capital of a state bank converting into a national banking association, but the aggregate of such common capital and capital notes or debentures would be sufficient.

It is proposed that Section 44 of the National Banking Act (Section 5154, United States Revised Statutes) be amended to provide that, for the purpose only of authorizing the approval of the conversion of a state bank into a national banking association, the Comptroller of the Currency may treat capital notes or debentures as capital in those cases where the Comptroller of the Currency is assured, prior to his approval of the conversion, that preferred stock will be issued by such state bank as soon as the same has been converted into a national banking association, whereupon the capital notes or debentures of the bank, which are bills payable insofar as national banking associations are concerned, would be retired. It is not difficult to procure such assurances. The Comptroller's office has devised a very successful method of procedure to accomplish this end. Such method has been employed to effect the substitution of preferred stock for such capital notes or debentures in certain conversion cases where the state bank had sufficient common capital to meet the requirements of the national banking law but where the Comptroller required assurances that the capital notes or debentures of the bank would be retired and preferred stock issued in lieu thereof.

2. LIABILITY UPON SHARES OF COMMON STOCK OF NATIONAL BANKING ASSOCIATIONS RESULTING FROM THE CONVERSION OF A STATE BANK INTO THE NATIONAL SYSTEM. Under the provisions of Section 5151 of the Revised Statutes of the United States and Section 23 of the Federal Reserve Act, the holders of shares of common stock of a national banking association are individually responsible for the contracts, debts and engagements of the association (the so-called double liability). Section 22 of the Banking Act of 1933 provided that the liability imposed upon the holders of shares of common stock of a national banking association by the provisions of Section 5151 of the Revised Statutes of the United States and Section 23 of the Federal Reserve Act, shall not apply with respect to shares in any national banking association issued after June 16, 1933. Section 304 of the Banking Act of 1935 provided that the liability imposed upon the holders of shares of common stock of a national banking association by the provisions of Section 5151 of the Revised Statutes of the United States and Section 23 of the

Federal Reserve Act, shall cease on July 1, 1937 with respect to all shares issued by any national banking association which shall be transacting the business of banking on July 1, 1937, provided the notice required by the said Section 304 shall first have been given. It is clear, of course, that shares of common stock of a national banking association chartered subsequent to June 16, 1933 are exempt from the so-called double liability. But it is not clear that shares of common stock of a national banking association resulting from a conversion would be shares "issued" after June 16, 1933 and, therefore, exempt from the so-called double liability. And, if such shares are not shares "issued" after June 16, 1933 then compliance with Section 304 of the Banking Act of 1935 (six months' notice by publication of intention to terminate such liability) would be necessary for each converted national banking association even though the conversion were approved by the Comptroller subsequent to July 1, 1937.

While the matter has not been determined by the courts, the United States Supreme Court (Michigan Ins. Bank vs Elred, 143 U.S. 293) held that the conversion of a state bank into a national banking association does not destroy its identity or its corporate existence) that it is not a closing of business but simply a continuation of the same body, with the same officers and the same stockholders, the same property, assets and business of banking under a changed jurisdiction. In order to fix the liability of the holders of shares of common stock of a converted national banking association on a parity with the holders of stock of a newly chartered national bank, it is proposed that the liability imposed upon such shareholders by the provisions of Section 5151 of the Revised Statutes of the United States and Section 23 of the Federal Reserve Act, shall not apply with respect to shares in any such association resulting from the conversion of any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States into a national banking association after July 1, 1937.

3. DIVIDENDS ON COMMON STOCK. The matter of the payment of dividends on shares of common stock of national banking associations causes many inquiries to be made, indicating considerable confusion in the minds of bankers as to the meaning of some of the language of the statute. The responsibility for the declaration of dividends on shares of stock of a national banking association rests with the board of directors. The question of the soundness of the provisions of the statute that dividends may be declared only semi-annually has been raised to a very considerable extent. The terms used in the present law (Sections 5199 and 5204 of the Revised Statutes) are not defined. When the so-called double liability was removed from the common stock of a national bank by the provisions of Section 304 of the Banking Act of 1935, it was provided (Section 315 of the Banking Act of 1935) that the surplus of the bank should be increased until it reached the amount of the bank's common capital. In the present law it is provided that dividends may be declared semi-annually and that before the declaration of a dividend on its shares of common stock, the bank shall carry not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common capital.

Sections 5199 and 5204 of the United States Revised Statutes pertain to the matter of the payment of dividends on shares of common stock of a national banking association and, necessarily, have to be read together. It is proposed that Section 5204, United States Revised Statutes, be repealed and that Section 5199 be restated so as to include the substance of both Sections 5204 and 5199 with some changes as herein indicated.

To avoid ambiguity the terms used in the new Section 5199 should be defined. It is proposed that the definition "net addition to profits" should spell out the item that has been used by the Comptroller Regraded & Classified

years to determine the sum that must be transferred to surplus in order to meet the requirement that ten per cent of the net profits be transferred to surplus before the declaration of a dividend on shares of common stock, and that the definition "bad debt" be liberalised so as to eliminate the inequities in the present statute. It is also proposed that statutory bad debts be disassociated from losses and that the transfer of ten per cent of the net addition to profits to the surplus of the association be disassociated from the payment of dividends on shares of common stock. Excessive statutory bad debts would continue to operate as a limitation upon the ability of the association to pay dividends on its shares of common stock. The transfer of ten per cent of net addition to profits for each six months' period to surplus until the surplus equals the amount of the common capital of the association should be made mandatory irrespective of whether or not a dividend is declared upon shares of common stock of the association for such period.

It is also proposed that dividends on shares of common stock may be declared by the board of directors at any time they deem expedient, provided the association has sufficient undivided profits then on hand, instead of semi-annually only as now provided by statute. In keeping with the policy of building up the surplus of each national banking association to the amount of its common stock to compensate for the elimination of the double liability on the holders of shares of common stock it is likewise provided that the surplus of a national banking association may not be reduced below the amount of its common capital, except for the purpose of charging off losses or for the purpose of paying dividends in common stock in accordance with the provisions of Section 5142 of the Revised Statutes of the United States (Dividends payable in shares of common stock).

4. FEEs FOR EXAMINATION OF CREDIT UNIONS. Under the provisions of the Act of June 23, 1932, the Comptroller of the Currency is required to make examinations of credit unions incorporated under the said act. These credit unions are increasing in number and in the volume of their assets. The rate of compensation fixed by the present law is **insufficient** to pay the actual costs of such examinations and, as a consequence, part of the cost of examinations of credit unions is being paid for by national banking associations. This amendment provides that the credit unions shall be assessed by the Comptroller for the actual cost of making the examination required under the act.

5. REGULATORY POWERS. Congress has heretofore granted to the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation and the Securities and Exchange Commission certain regulatory powers. The Comptroller of the Currency has no authority to issue rules and regulations except as to the definition of the term "investment securities", and except as to limiting and restricting the purchase of "investment securities" by a national banking association for its *own* account.

The numerous changes in the provisions of law relating to national banks during the past few years necessitate interpretative rulings by the Comptroller of the Currency. The Comptroller of the Currency is in closer contact with the Congress and the committees thereof than are those persons who are directing financial institutions which are under the supervision of the Comptroller and, consequently, the Comptroller of the Currency is in a position, through the issuance of regulations when necessary, to carry out the intent of Congress in enacting banking laws. It is proposed that the Comptroller of the Currency should be authorized and empowered to make such rules and regulations as may be necessary and proper to enable him effectively to perform the duties, functions or services imposed upon him under the provisions of the laws relating to national banks.

5. APPORTIONMENT OF SALARIES. The salaries of the first and second Deputy Comptrollers of the Currency are fixed by law as a part of the expense of the examination of national banks and are paid from assessments levied by the Comptroller of the Currency upon national banks. The Comptroller of the Currency is authorized by law to apportion the salary of the third Deputy Comptroller of the Currency in accordance with the duties performed by him. At the present time one of the most important functions of the Bureau is the liquidation of national banks in receivership and the first Deputy Comptroller of the Currency is devoting his efforts exclusively to that function.

It is proposed that the Comptroller of the Currency should be authorized to apportion the salaries of the Deputy Comptrollers and of other officers and employees of his Bureau who are performing duties in connection with more than one administrative division or branch of his office to the end that the apportionment of such salaries among the funds under the control and supervision of the Comptroller would be fair and equitable.

7. BUILDING AND LOAN CODE. The present code of laws of the District of Columbia respecting building and loan associations is very inadequate from the viewpoint of both the associations and the supervising authority. The present code does not prescribe sound practices for the conduct of the business of such association, but leaves the determination of the manner in which the business shall be conducted to the associations themselves through empowering them to determine such matters by by-law. The terms used in the present code are not defined. The supervising authority is powerless to take any corrective steps prior to the insolvency of an association. There is no authority for consolidation or for the appointment of a conservator therefor. There is no requirement for reserves. Building associations may charge premiums or membership fees which premiums or membership fees are sometimes used for the payment of promotion expenses. Funds may be withdrawn at any time and fixed rates of interest are paid on various accounts. The public, generally speaking, do not understand that when they pay money into building and loan associations they are subscribing for shares of stock, nor that when they borrow money from building associations they have no set-off for the amount paid in in amortization of the amount borrowed against the face amount of the debt to the association.

A draft of a proposed code of laws for building and loan associations in the District of Columbia, which was prepared prior to the appointment of a receiver for Fidelity Building and Loan Association, is now in the hands of the General Counsel of the Treasury Department for study. The experience of the Comptroller's office in administering the receivership of Fidelity Building and Loan Association has disclosed certain other weaknesses in the present law. It is also desired to include certain provisions recently considered and approved by the National Association of Building and Loan Supervisors. As soon as the new draft incorporating the additional features has been completed by the Comptroller's office it will be forwarded to the General Counsel of the Treasury Department for consideration.

While this particular piece of legislation may not be of any special interest to other banking agencies of the Government, and would concern only the Secretary of the Treasury and the Comptroller of the Currency, by reason of the latter's jurisdiction over these associations in the District of Columbia, the matter is referred to in this memorandum by reason of the fact that the last report of the Comptroller recommended the enactment of a new code of laws for the District of Columbia in respect to building and loan associations. It is proposed that the new building and loan code for the District of Columbia should give to the Comptroller of the Currency such powers as are proper to enable him, as the supervising authority, to control the or-

ganization of new associations, to properly supervise such associations as going concerns and to facilitate the reorganization or liquidation of insolvent associations,

Amendment to Section 3 of the Act of June 30, 1876 (Title 12, U.S.C. Sec. 197) not included in the last report of the Comptroller of the Currency to Congress but introduced in the last Congress and known as Senate Bill 4510.

8. SHAREHOLDERS' AGENT. Under the present law, whenever all claims of the creditors of a national bank in receivership shall have been paid, and all expenses of the receivership shall have been provided for, the Comptroller of the Currency is required to call a meeting of the shareholders of such association for the purpose of determining whether the receivership shall be continued for the benefit of the shareholders, or a liquidating agent elected by the shareholders for that purpose. Under the present law many administrative difficulties have been encountered, the solutions of which are important to the Comptroller's office by reason of the large number of receiverships being supervised by him, the constantly increasing number of which are reaching the stage where, under the law, the shareholders' meeting must be called by the Comptroller. The manner provided in the present law for the electing of a shareholders' agent has proven to be inequitable in many cases, in that a large shareholder who has not paid his assessment may, and sometimes does, control the election of the shareholders' agent, electing himself as such agent and paying himself a salary that consumes a major portion if not all of the returns to the agent from the liquidation of the balance of the assets in his hands.

Without disturbing the method now provided by law for the pro rata distribution of the proceeds of the assets among shareholders after those shareholders who have paid assessments have been paid in full, the proposed amendment should provide that in event the assets are not sufficient to completely reimburse shareholders who have paid assessments levied upon them, the percentage of aggregate liability upon such assessment paid in by each shareholder shall, as nearly as possible, be equalized in that where some of the shareholders have paid greater percentages of their assessments than other shareholders, the shareholders paying such greater percentages shall, in each case, first be progressively reimbursed the excess of their payments over those of said other shareholders, to the end that after such adjustments of excess percentages have been made, all shareholders shall have due them the same percentage of unreimbursed assessment, and thereafter reimbursement shall be made to all shareholders upon a pro rata basis. It is proposed that this amendment should provide that whenever all claims of creditors of a national banking association in receivership shall have been paid the full amount of such claims, together with interest thereon at the rate of three per centum per annum, and all expenses of the receivership shall have been provided for, the Comptroller of the Currency may continue, through a receiver, the liquidation and collection of the assets of such association and of unpaid assessments on shareholders, or the Comptroller of the Currency may call a meeting of shareholders for the purpose of electing an agent and an executive committee; such agent to conduct the liquidation and collection of the assets for the benefit of the shareholders of the association in accordance with law and under the supervision of the executive committee, which shall consist of not less than three shareholders elected by the shareholders,

CONFIDENTIALLIST OF SUGGESTED AMENDMENTS TO THE LAWS AFFECTING
THE FEDERAL RESERVE SYSTEMSECTION 4 OF THE FEDERAL RESERVE ACT

Separation of offices of Chairman and Federal Reserve Agent. - An amendment authorizing the Board in its discretion to designate one of the class C directors to serve only as Chairman of the board of directors of the Federal Reserve bank and to appoint a different person, who need not be a director, to serve as Federal Reserve Agent. In such event, relieve the Chairman of all statutory duties except those of director and the duty of presiding at meetings of the board of directors. The amendment would be so drawn that the requirement of tested banking experience would not apply to the separate position of Chairman. Also an amendment authorizing an Assistant Federal Reserve Agent to perform the duties of the Agent during a vacancy in the latter's office as distinguished from the absence or disability of the Agent and eliminating the requirement that an Assistant Agent be a person of "tested banking experience".

SECTION 7 OF THE FEDERAL RESERVE ACT

Dividends of Federal Reserve banks. - An amendment forbidding the Federal Reserve banks to pay more than a four per cent cumulative dividend, except that, with the consent of the Board, they may pay an additional non-cumulative dividend up to two per cent.

SECTION 9 OF THE FEDERAL RESERVE ACT

Capital requirements. - An amendment modifying the capital requirements for admission of State banks to membership in the Federal Reserve System so as to place such requirements on the basis of capital adequate in the judgment of the Board of Governors in relation to deposit and other corporate responsibilities rather than upon arbitrary requirements based on the population of the place in which located; together with a similar amendment to the law regarding capital requirements for the organization of national banks, substituting, of course, in the latter case the judgment of the Comptroller of the Currency for that of the Board of Governors. However, there should be retained the requirement that no national bank may be organized with a capital less than \$50,000 in any case and no State bank may be admitted with a capital less than \$50,000 except in those cases where a capital of \$25,000 is sufficient under the present law.

Also an amendment to provide that a State member bank or a national bank having branches shall have capital adequate in relation

to its deposit and other corporate responsibilities, in the judgment of the Board of Governors or the Comptroller of the Currency, as the case may be, provided that such capital shall be not less in any case than the amount required by State law of State banks operating the same number of branches in places in which the bank's branches are located. Such provisions would take the place of the present capital requirements specifically prescribed by the law for member banks having branches.

SECTION 9 OF THE FEDERAL RESERVE ACT

Waiver of membership requirements. - An amendment to make effective immediately, instead of in 1941, the Board's authority to waive requirements for admission to membership for the purpose of facilitating the admission of any State bank which is required to be a member in order to continue in an insured status.

SECTION 10 OF THE FEDERAL RESERVE ACT

Chairman and Vice Chairman of the Board of Governors. - An amendment providing that the Chairman (and Vice Chairman) of the Board of Governors shall be designated by the President to serve as such for a term of four years or, if the Chairman (or Vice Chairman) has less than four years to serve as a member of the Board, then for the remainder of his term as a member of the Board. The amendment should also provide that whenever the term of the Chairman (or Vice Chairman) as such expires and he elects not to continue to serve as a member of the Board, the provision of the second paragraph of Section 10 of the Federal Reserve Act that members of the Board shall be ineligible for two years thereafter to hold any office, position, or employment in any member bank, shall not apply.

SECTION 11 OF THE FEDERAL RESERVE ACT

Assignment of duties. - An amendment authorizing the Board of Governors to assign to designated members of the Board or its representatives, under rules and regulations prescribed by the Board, the performance of specific duties and functions, not including the determination of national or System policies, the power to make rules and regulations, or any power which under the Act is required to be exercised by a specified number of members of the Board.

SECTION 11 OF THE FEDERAL RESERVE ACT

Facilitating hearings by the Board. - In connection with all hearings conducted by the Board regarding the removal of directors and officers of member banks, the expulsion of State banks from the

Federal Reserve System, the revocation of voting permits, and similar matters, an amendment giving the Board authority similar to that possessed by the Federal Trade Commission, the Interstate Commerce Commission and other administrative agencies to have testimony taken by one or more members of the Board or by such trial examiners as it may designate, and authorizing the Board or its designated representatives to administer oaths. Also an amendment authorizing the Board to prescribe rules governing the procedure in such hearings and permitting the service of notice in such cases by registered mail.

SECTION 12A OF THE FEDERAL RESERVE ACT

Membership of Federal Open Market Committee. - An amendment changing representation of Federal Reserve banks on open market Committee so that there will be four representatives, each of whom will be elected by a group of three Federal Reserve banks, and one representative at large elected by the Presidents of the twelve Federal Reserve banks. Require that all representatives of Federal Reserve banks on Open Market Committee, including alternates, shall be Presidents of Federal Reserve banks. Make it clear that in electing such representatives each Federal Reserve bank has one vote instead of each director having one vote. Prescribe method of election.

SECTION 14(d) OF THE FEDERAL RESERVE ACT

Establishment of Discount Rates by Federal Reserve Banks. - An amendment which would eliminate the requirement that each Federal reserve bank shall establish discount rates every fourteen days, but would require instead that each bank shall establish such rates at least once during each month or oftener if deemed necessary by the Board.

SECTION 16 OF THE FEDERAL RESERVE ACT

Penalty for paying out notes of another Federal Reserve bank. - An amendment repealing the provision which prevents a Federal Reserve bank from paying out notes of another Federal Reserve bank.

STATEMENT OF HON. LEO T. CROWLEY, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION, ON H. R. 12447 BEFORE THE COMMITTEE ON BANKING AND CURRENCY OF THE HOUSE OF REPRESENTATIVES, MONDAY MAY 11, 1936.

Last year this Committee and the Senate Banking and Currency Committee held extensive hearings and gave careful consideration to the revisions of the law necessary to enable the Federal Deposit Insurance Corporation to discharge its duties efficiently. As a result, Title I. of the Banking Act of 1935 was enacted, providing for the powers and duties of the Corporation, both as insurer and as receiver of national banks. We do not understand that this Committee intends in any way to change any of the provisions of the law governing the operation of the Corporation which were enacted last year. However, several sections of the pending bill are so worded as possibly to create uncertainty on the question of whether the powers of the Corporation are being changed or diminished by implication.

While the enactment of the bill in its present form might be held not to affect rights and powers of the Corporation, the determination of this question involves a question of statutory construction which can readily be avoided by the insertion of a provision specifically stating that the bill shall not in any way affect or diminish the Corporation's powers.

Section 1

Section 1 of the bill under consideration provides that the Comptroller of the Currency in fixing salaries of employees

who are now or hereafter may be under his direction by virtue of any provision of law and whose salaries are payable from funds under his control and supervision derived from assessments levied by him or as otherwise provided by law, may apportion their salaries among various funds where services are rendered in connection with more than one administrative division or branch of the duties imposed by law upon him in any capacity.

The attention of the committee is called to paragraph (1) of subsection (m) of Section 12B of the Federal Reserve Act, as amended, which provides that the Corporation as receiver of a closed national bank "shall have the right to appoint agents to assist it in its duties as such receiver and that all fees, compensations, and expenses of liquidation and administration thereof shall be fixed by the Corporation, subject to the approval of the Comptroller of the Currency, and may be paid by it out of funds coming into its possession as such receiver."

It is not clear whether the draftsman of section 1 of the pending bill intended that it should apply to the receivership activities of the Federal Deposit Insurance Corporation. In the pending bill no specific reference is made to Section 12B of the Federal Reserve Act. However, the enactment of this section as an amendment to the existing statutes pertaining to national bank liquidations might be construed to imply the repeal or modification of those provisions of paragraph (1), subsection (m) of Section 12B which give the Corporation the right to employ agents and fix their compensation.

This would serve only to deprive the Corporation of rights now given to it by Congress to appoint agents to assist it in its duties as receiver and to fix the fees, compensation and expenses of such employees. Because of the provision in subsection (m) of Section 12B of the Federal Reserve Act, giving the Comptroller of the Currency the right to approve any fees, compensation or expenses so fixed by the Corporation as receiver of a national bank, his office already has full authority to protect the interest in national bank receiverships of all creditors other than the Corporation.

Section 4

Section 4 of the bill under consideration provides that whenever all the assets of an association which has been placed in the hands of a receiver shall have been distributed by the Comptroller of the Currency in accordance with the provisions of Section 5236 of the Revised Statutes of the United States, the Comptroller of the Currency may call a meeting of shareholders of the association to vote upon the question of whether the receiver shall continue to wind up the affairs of the association or an agent shall be elected for that purpose. In lines 11 to 14 on page 9 of H. R. 12447, reference is made to the distribution of the assets of the association in the hands of a receiver "by the Comptroller (of the Currency) in accordance with the provisions of Section 5236 of the Revised Statutes of the United States" and to the payment in full of all claims "by the said Comptroller."

Paragraphs three and four, subsection (L) of Section 12B of the Federal Reserve Act, as amended, now provide that whenever

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any insured national bank shall have been closed by action of its board of directors, or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such closed bank, and no other person shall be appointed receiver of such closed bank. It is further provided that it shall be the duty of the Corporation as such receiver to realize upon the assets of such closed bank and to wind up the affairs of such closed bank. The Corporation is specifically directed to retain for its own account such portion of the amounts realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors, and to pay the depositors and other creditors the net amounts available for distribution to them. With respect to such closed bank, the Corporation, as receiver, is given all the rights, powers, and privileges now possessed by or hereafter granted by law to a receiver of an insolvent national bank.

Section 4 of H. R. 12447 can be construed as superseding the above-mentioned provisions of subsection (L) of Section 12B of the Federal Reserve Act. We have no objections to any of the provisions of the pending bill insofar as they apply to receiverships contracted for by the Comptroller of the Currency prior to January 1, 1934. However, as previously stated, we are sure that neither this Committee nor the Comptroller of the Currency intends to affect the existing powers of the Federal Deposit Insurance Corporation as

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receiver of national banks which fail subsequent to January 1, 1934. We also believe that it is not the desire of this Committee to leave its intention in this respect subject to any doubt. It is therefore respectfully suggested that the Committee write into the bill a clause to the effect that nothing therein contained shall alter or affect in any manner the existing powers of the Federal Deposit Insurance Corporation as receiver of a national bank. It is also suggested that following the words "notwithstanding any other provisions of law," in line 10, page 2, there be inserted the words, "and except as herein otherwise provided," in order that the suggested clause excepting the Corporation might be given full effect.

We have not discussed the provisions of the second paragraph of Section 1, commencing with line 4 on page 2 of the pending bill, as we understand the Committee has already determined that this paragraph shall be stricken. The Corporation would recommend against the enactment of this provision as drawn and if the Committee intends to give further consideration to the paragraph the Corporation desires an opportunity to present its objections at length at a further hearing.



OFFICE OF THE CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTONMEMORANDUM:

Re: Legislation recommended by the Comptroller of the Currency in his annual report to Congress for the year ending October 31, 1935, which it is proposed to introduce at the coming session of Congress.

The legislation recommended by the Comptroller of the Currency, which it is proposed to introduce at the coming session of Congress, appears to be the same as that included in H. R. 12,447 and S. 4510 - S. 4515, inclusive, 74th Congress, with the exception of the proposals relating to the building and loan code for the District of Columbia.

It is not within my province, nor is it my desire, to criticize legislation proposed by the Comptroller of the Currency which affects only the administration of his duties in the supervision of national banks. My sole interest in these proposed amendments is that they shall include provisions which will clearly and definitely state that they in no way supersede, conflict with, or limit the existing powers of the Federal Deposit Insurance Corporation.

My suggestions relating to the legislation proposed last year were presented in my testimony on May 11, 1936 before the Committee on Banking and Currency of the House of Representatives, a copy of which is submitted herewith.

No comments have been made previously relative to the proposal that the Comptroller be authorized to issue whatever regulations he deemed necessary for the performance of his duties, inasmuch as the House Committee had eliminated the provision. Since this proposal is to be re-introduced it is requested that it include a provision to the effect that no regulations to be issued under the proposed authority would in any way conflict with the existing powers of the Federal Deposit Insurance Corporation.

LEO T. CROWLEY,
Chairman.

December 18, 1936

MEMORANDUM

Re: Legislation recommended by Comptroller of the Currency in his annual report to Congress for the year ending October 31, 1935, which it is proposed to introduce at the coming session of Congress.

1. CAPITAL REQUIREMENTS FOR CONVERSION. In many cases, state banks have heretofore effected the elimination of losses and depreciation on securities and have made adjustment of their capital structures by the reduction of their common capital and by the issuance of capital notes or debentures. These capital notes or debentures were issued because the laws of the state did not permit the issuance of preferred stock by such state banks. These capital notes or debentures do not constitute capital within the meaning of the provisions of the national banking laws. In some of these cases, the amount of common capital of the state bank is not sufficient to meet the requirements of the national banking laws as to the necessary amount of capital of a state bank converting into a national banking association, but the aggregate of such common capital and capital notes or debentures would be sufficient.

It is proposed that Section 44 of the National Banking Act (Section 5154, United States Revised Statutes) be amended to provide that, for the purpose only of authorizing the approval of the conversion of a state bank into a national banking association, the Comptroller of the Currency may treat capital notes or debentures as capital in those cases where the Comptroller of the Currency is assured, prior to his approval of the conversion, that preferred stock will be issued by such state bank as soon as the same has been converted into a national banking association, whereupon the capital notes or debentures of the bank, which are bills payable insofar as national banking associations are concerned, would be retired. It is not difficult to procure such assurances. The Comptroller's office has devised a very successful method of procedure to accomplish this end. Such method has been employed to effect the substitution of preferred stock for such capital notes or debentures in certain conversion cases where the state bank had sufficient common capital to meet the requirements of the national banking law but where the Comptroller required assurances that the capital notes or debentures of the bank would be retired and preferred stock issued in lieu thereof.

2. LIABILITY UPON SHARES OF COMMON STOCK OF NATIONAL BANKING ASSOCIATIONS RESULTING FROM THE CONVERSION OF A STATE BANK INTO THE NATIONAL SYSTEM. Under the provisions of Section 5151 of the Revised Statutes of the United States and Section 23 of the Federal Reserve Act, the holders of shares of common stock of a national banking association are individually responsible for the contracts, debts and engagements of the association (the so-called double liability). Section 22 of the Banking Act of 1933 provided that the liability imposed upon the holders of shares of common stock of a national banking association by the provisions of Section 5151 of the Revised Statutes of the United States and Section 23 of the Federal Reserve Act, shall not apply with respect to shares in any national banking association issued after June 16, 1933. Section 304 of the Banking Act of 1935 provided that the liability imposed upon the holders of shares of common stock of a national banking association by the provisions of Section 5151 of the Revised Statutes of the United States and Section 23 of the

Federal Reserve Act, shall cease on July 1, 1937 with respect to all shares issued by any national banking association which shall be transacting the business of banking on July 1, 1937, provided the notice required by the said Section 304 shall first have been given. It is clear, of course, that shares of common stock of a national banking association chartered subsequent to June 16, 1933 are exempt from the so-called double liability. But it is not clear that shares of common stock of a national banking association resulting from a conversion would be shares "issued" after June 16, 1933 and, therefore, exempt from the so-called double liability. And, if such shares are not shares "issued" after June 16, 1933 then compliance with Section 304 of the Banking Act of 1935 (six months' notice by publication of intention to terminate such liability) would be necessary for each converted national banking association even though the conversion were approved by the Comptroller subsequent to July 1, 1937.

While the matter has not been determined by the courts, the United States Supreme Court (Michigan Ins. Bank vs Elred, 143 U.S. 293) held that the conversion of a state bank into a national banking association does not destroy its identity or its corporate existence) that it is not a closing of business but simply a continuation of the same body, with the same officers and the same stockholders, the same property, assets and business of banking under a changed jurisdiction. In order to fix the liability of the holders of shares of common stock of a converted national banking association on a parity with the holders of stock of a newly chartered national bank, it is proposed that the liability imposed upon such shareholders by the provisions of Section 5151 of the Revised Statutes of the United States and Section 23 of the Federal Reserve Act, shall not apply with respect to shares in any such association resulting from the conversion of any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States into a national banking association after July 1, 1937.

3. DIVIDENDS ON COMMON STOCK. The matter of the payment of dividends on shares of common stock of national banking associations causes many inquiries to be made, indicating considerable confusion in the minds of bankers as to the meaning of some of the language of the statute. The responsibility for the declaration of dividends on shares of stock of a national banking association rests with the board of directors. The question of the soundness of the provisions of the statute that dividends may be declared only semi-annually has been raised to a very considerable extent. The terms used in the present law (Sections 5199 and 5204 of the Revised Statutes) are not defined. When the so-called double liability was removed from the common stock of a national bank by the provisions of Section 304 of the Banking Act of 1935, it was provided (Section 315 of the Banking Act of 1935) that the surplus of the bank should be increased until it reached the amount of the bank's common capital. In the present law it is provided that dividends may be declared semi-annually and that before the declaration of a dividend on its shares of common stock, the bank shall carry not less than one-tenth part of its net profits of the preceding half year to its surplus fund until the same shall equal the amount of its common capital.

Sections 5199 and 5204 of the United States Revised Statutes pertain to the matter of the payment of dividends on shares of common stock of a national banking association and, necessarily, have to be read together. It is proposed that Section 5204, United States Revised Statutes, be repealed and that Section 5199 be restated so as to include the substance of both Sections 5204 and 5199 with some changes as herein indicated.

To avoid ambiguity the terms used in the new Section 5199 should be defined. It is proposed that the definition "net addition to profits" should spell out the item that has been used by the Comptroller's office for

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years to determine the sum that must be transferred to surplus in order to meet the requirement that ten per cent of the net profits be transferred to surplus before the declaration of a dividend on shares of common stock, and that the definition "bad debt" be liberalised so as to eliminate the inequities in the present statute. It is also proposed that statutory bad debts be disassociated from losses and that the transfer of ten per cent of the net addition to profits to the surplus of the association be disassociated from the payment of dividends on shares of common stock. Excessive statutory bad debts would continue to operate as a limitation upon the ability of the association to pay dividends on its shares of common stock. The transfer of ten per cent of net addition to profits for each six months' period to surplus until the surplus equals the amount of the common capital of the association should be made mandatory irrespective of whether or not a dividend is declared upon shares of common stock of the association for such period.

It is also proposed that dividends on shares of common stock may be declared by the board of directors at any time they deem expedient, provided the association has sufficient undivided profits then on hand, instead of semi-annually only as now provided by statute. In keeping with the policy of building up the surplus of each national banking association to the amount of its common stock to compensate for the elimination of the double liability on the holders of shares of common stock it is likewise provided that the surplus of a national banking association may not be reduced below the amount of its common capital, except for the purpose of charging off losses or for the purpose of paying dividends in common stock in accordance with the provisions of Section 5142 of the Revised Statutes of the United States (Dividends payable in shares of common stock).

4. FEE FOR EXAMINATION OF CREDIT UNIONS. Under the provisions of the Act of June 23, 1932, the Comptroller of the Currency is required to make examinations of credit unions incorporated under the said act. These credit unions are increasing in number and in the volume of their assets. The rate of compensation fixed by the present law is insufficient to pay the actual costs of such examinations and, as a consequence, part of the cost of examinations of credit unions is being paid for by national banking associations. This amendment provides that the credit unions shall be assessed by the Comptroller for the actual cost of making the examination required under the act.

5. REGULATORY POWERS. Congress has heretofore granted to the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation and the Securities and Exchange Commission certain regulatory powers. The Comptroller of the Currency has no authority to issue rules and regulations except as to the definition of the term "investment securities", and except as to limiting and restricting the purchase of "investment securities" by a national banking association for its own account.

The numerous changes in the provisions of law relating to national banks during the past few years necessitate interpretative rulings by the Comptroller of the Currency. The Comptroller of the Currency is in closer contact with the Congress and the committees thereof than are those persons who are directing financial institutions which are under the supervision of the Comptroller and, consequently, the Comptroller of the Currency is in a position, through the issuance of regulations when necessary, to carry out the intent of Congress in enacting banking laws. It is proposed that the Comptroller of the Currency should be authorized and empowered to make such rules and regulations as may be necessary and proper to enable him effectively to perform the duties, functions or services imposed upon him under the provisions of the laws relating to national banks.

5. APPORTIONMENT OF SALARIES. The salaries of the first and second Deputy Comptrollers of the Currency are fixed by law as a part of the expense of the examination of national banks and are paid from assessments levied by the Comptroller of the Currency upon national banks. The Comptroller of the Currency is authorized by law to apportion the salary of the third Deputy Comptroller of the Currency in accordance with the duties performed by him. At the present time one of the most important functions of the Bureau is the liquidation of national banks in receivership and the first Deputy Comptroller of the Currency is devoting his efforts exclusively to that function.

It is proposed that the Comptroller of the Currency should be authorized to apportion the salaries of the Deputy Comptrollers and of other officers and employees of his Bureau who are performing duties in connection with more than one administrative division or branch of his office to the end that the apportionment of such salaries among the funds under the control and supervision of the Comptroller would be fair and equitable.

7. BUILDING AND LOAN CODE. The present code of laws of the District of Columbia respecting building and loan associations is very inadequate from the viewpoint of both the associations and the supervising authority. The present code does not prescribe sound practices for the conduct of the business of such association, but leaves the determination of the manner in which the business shall be conducted to the associations themselves through empowering them to determine such matters by by-law. The terms used in the present code are not defined. The supervising authority is powerless to take any corrective steps prior to the insolvency of an association. There is no authority for consolidation or for the appointment of a conservator therefor. There is no requirement for reserves. Building associations may charge premiums or membership fees which premiums or membership fees are sometimes used for the payment of promotion expenses. Funds may be withdrawn at any time and fixed rates of interest are paid on various accounts. The public, generally speaking, do not understand that when they pay money into building and loan associations they are subscribing for shares of stock, nor that when they borrow money from building associations they have no set-off for the amount paid in in amortization of the amount borrowed against the face amount of the debt to the association.

A draft of a proposed code of laws for building and loan associations in the District of Columbia, which was prepared prior to the appointment of a receiver for Fidelity Building and Loan Association, is now in the hands of the General Counsel of the Treasury Department for study. The experience of the Comptroller's office in administering the receivership of Fidelity Building and Loan Association has disclosed certain other weaknesses in the present law. It is also desired to include certain provisions recently considered and approved by the National Association of Building and Loan Supervisors. As soon as the new draft incorporating the additional features has been completed by the Comptroller's office it will be forwarded to the General Counsel of the Treasury Department for consideration.

While this particular piece of legislation may not be of any special interest to other banking agencies of the Government, and would concern only the Secretary of the Treasury and the Comptroller of the Currency, by reason of the latter's jurisdiction over these associations in the District of Columbia, the matter is referred to in this memorandum by reason of the fact that the last report of the Comptroller recommended the enactment of a new code of laws for the District of Columbia in respect to building and loan associations. It is proposed that the new building and loan code for the District of Columbia should give to the Comptroller of the Currency such powers as are proper to enable him, as the supervising authority, to control the or-

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organization of new associations, to properly supervise such associations as going concerns and to facilitate the reorganization or liquidation of insolvent associations.

Amendment to Section 3 of the Act of June 30, 1876 (Title 12, U.S.C. Sec. 197) not included in the last report of the Comptroller of the Currency to Congress but introduced in the last Congress and known as Senate Bill 4510.

8. SHAREHOLDERS' AGENT. Under the present law, whenever all claims of the creditors of a national bank in receivership shall have been paid, and all expenses of the receivership shall have been provided for, the Comptroller of the Currency is required to call a meeting of the shareholders of such association for the purpose of determining whether the receivership shall be continued for the benefit of the shareholders, or a liquidating agent elected by the shareholders for that purpose. Under the present law many administrative difficulties have been encountered, the solutions of which are important to the Comptroller's office by reason of the large number of receiverships being supervised by him, the constantly increasing number of which are reaching the stage where, under the law, the shareholders' meeting must be called by the Comptroller. The manner provided in the present law for the electing of a shareholders' agent has proven to be inequitable in many cases, in that a large shareholder who has not paid his assessment may, and sometimes does, control the election of the shareholders' agent, electing himself as such agent and paying himself a salary that consumes a major portion if not all of the returns to the agent from the liquidation of the balance of the assets in his hands.

Without disturbing the method now provided by law for the pro rata distribution of the proceeds of the assets among shareholders after those shareholders who have paid assessments have been paid in full, the proposed amendment should provide that in event the assets are not sufficient to completely reimburse shareholders who have paid assessments levied upon them, the percentage of aggregate liability upon such assessment paid in by each shareholder shall, as nearly as possible, be equalized in that where some of the shareholders have paid greater percentages of their assessments than other shareholders, the shareholders paying such greater percentages shall, in each case, first be progressively reimbursed the excess of their payments over those of said other shareholders, to the end that after such adjustments of excess percentages have been made, all shareholders shall have due them the same percentage of unreimbursed assessment, and thereafter reimbursement shall be made to all shareholders upon a pro rata basis. It is proposed that this amendment should provide that whenever all claims of creditors of a national banking association in receivership shall have been paid the full amount of such claims, together with interest thereon at the rate of three per centum per annum, and all expenses of the receivership shall have been provided for, the Comptroller of the Currency may continue, through a receiver, the liquidation and collection of the assets of such association and of unpaid assessments on shareholders, or the Comptroller of the Currency may call a meeting of shareholders for the purpose of electing an agent and an executive committee; such agent to conduct the liquidation and collection of the assets for the benefit of the shareholders of the association in accordance with law and under the supervision of the executive committee, which shall consist of not less than three shareholders elected by the shareholders.

L. A. KELLY

CONFIDENTIALLIST OF SUGGESTED AMENDMENTS TO THE LAWS AFFECTING
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Dividends of Federal Reserve banks. - An amendment forbidding the Federal Reserve banks to pay more than a four per cent cumulative dividend, except that, with the consent of the Board, they may pay an additional non-cumulative dividend up to two per cent.

SECTION 9 OF THE FEDERAL RESERVE ACT

Capital requirements. - An amendment modifying the capital requirements for admission of State banks to membership in the Federal Reserve System so as to place such requirements on the basis of capital adequate in the judgment of the Board of Governors in relation to deposit and other corporate responsibilities rather than upon arbitrary requirements based on the population of the place in which located; together with a similar amendment to the law regarding capital requirements for the organization of national banks, substituting, of course, in the latter case the judgment of the Comptroller of the Currency for that of the Board of Governors. However, there should be retained the requirement that no national bank may be organized with a capital less than \$50,000 in any case and no State bank may be admitted with a capital less than \$50,000 except in those cases where a capital of \$25,000 is sufficient under the present law.

Also an amendment to provide that a State member bank or a national bank having branches shall have capital adequate in relation

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to its deposit and other corporate responsibilities, in the judgment of the Board of Governors or the Comptroller of the Currency, as the case may be, provided that such capital shall be not less in any case than the amount required by State law of State banks operating the same number of branches in places in which the bank's branches are located. Such provisions would take the place of the present capital requirements specifically prescribed by the law for member banks having branches.

SECTION 9 OF THE FEDERAL RESERVE ACT

Waiver of membership requirements. - An amendment to make effective immediately, instead of in 1941, the Board's authority to waive requirements for admission to membership for the purpose of facilitating the admission of any State bank which is required to be a member in order to continue in an insured status.

SECTION 10 OF THE FEDERAL RESERVE ACT

Chairman and Vice Chairman of the Board of Governors. - An amendment providing that the Chairman (and Vice Chairman) of the Board of Governors shall be designated by the President to serve as such for a term of four years or, if the Chairman (or Vice Chairman) has less than four years to serve as a member of the Board, then for the remainder of his term as a member of the Board. The amendment should also provide that whenever the term of the Chairman (or Vice Chairman) as such expires and he elects not to continue to serve as a member of the Board, the provision of the second paragraph of Section 10 of the Federal Reserve Act that members of the Board shall be ineligible for two years thereafter to hold any office, position, or employment in any member bank, shall not apply.

SECTION 11 OF THE FEDERAL RESERVE ACT

Assignment of duties. - An amendment authorizing the Board of Governors to assign to designated members of the Board or its representatives, under rules and regulations prescribed by the Board, the performance of specific duties and functions, not including the determination of national or System policies, the power to make rules and regulations, or any power which under the Act is required to be exercised by a specified number of members of the Board.

SECTION 11 OF THE FEDERAL RESERVE ACT

Facilitating hearings by the Board. - In connection with all hearings conducted by the Board regarding the removal of directors and officers of member banks, the expulsion of State banks from the

Federal Reserve System, the revocation of voting permits, and similar matters, an amendment giving the Board authority similar to that possessed by the Federal Trade Commission, the Interstate Commerce Commission and other administrative agencies to have testimony taken by one or more members of the Board or by such trial examiners as it may designate, and authorizing the Board or its designated representatives to administer oaths. Also an amendment authorizing the Board to prescribe rules governing the procedure in such hearings and permitting the service of notice in such cases by registered mail.

SECTION 12A OF THE FEDERAL RESERVE ACT

Membership of Federal Open Market Committee. - An amendment changing representation of Federal Reserve banks on open market Committee so that there will be four representatives, each of whom will be elected by a group of three Federal Reserve banks, and one representative at large elected by the Presidents of the twelve Federal Reserve banks. Require that all representatives of Federal Reserve banks on Open Market Committee, including alternates, shall be Presidents of Federal Reserve banks. Make it clear that in electing such representatives each Federal Reserve bank has one vote instead of each director having one vote. Prescribe method of election.

SECTION 14(d) OF THE FEDERAL RESERVE ACT

Establishment of Discount Rates by Federal Reserve Banks. - An amendment which would eliminate the requirement that each Federal reserve bank shall establish discount rates every fourteen days, but would require instead that each bank shall establish such rates at least once during each month or oftener if deemed necessary by the Board.

SECTION 16 OF THE FEDERAL RESERVE ACT

Penalty for paying out notes of another Federal Reserve bank. - An amendment repealing the provision which prevents a Federal Reserve bank from paying out notes of another Federal Reserve bank.

STATEMENT OF HON. LEO T. CROWLEY, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION, ON H. R. 12447 BEFORE THE COMMITTEE ON BANKING AND CURRENCY OF THE HOUSE OF REPRESENTATIVES, MONDAY, MAY 11, 1936.

Last year this Committee and the Senate Banking and Currency Committee held extensive hearings and gave careful consideration to the revisions of the law necessary to enable the Federal Deposit Insurance Corporation to discharge its duties efficiently. As a result, Title I. of the Banking Act of 1935 was enacted, providing for the powers and duties of the Corporation, both as insurer and as receiver of national banks. We do not understand that this Committee intends in any way to change any of the provisions of the law governing the operation of the Corporation which were enacted last year. However, several sections of the pending bill are so worded as possibly to create uncertainty on the question of whether the powers of the Corporation are being changed or diminished by implication.

While the enactment of the bill in its present form might be held not to affect rights and powers of the Corporation, the determination of this question involves a question of statutory construction which can readily be avoided by the insertion of a provision specifically stating that the bill shall not in any way affect or diminish the Corporation's powers.

Section 1

Section 1 of the bill under consideration provides that the Comptroller of the Currency in fixing salaries of employees

who are now or hereafter may be under his direction by virtue of any provision of law and whose salaries are payable from funds under his control and supervision derived from assessments levied by him or as otherwise provided by law, may apportion their salaries among various funds where services are rendered in connection with more than one administrative division or branch of the duties imposed by law upon him in any capacity.

The attention of the committee is called to paragraph (1) of subsection (m) of Section 12B of the Federal Reserve Act, as amended, which provides that the Corporation as receiver of a closed national bank "shall have the right to appoint agents to assist it in its duties as such receiver and that all fees, compensations, and expenses of liquidation and administration thereof shall be fixed by the Corporation, subject to the approval of the Comptroller of the Currency, and may be paid by it out of funds coming into its possession as such receiver."

It is not clear whether the draftsman of section 1 of the pending bill intended that it should apply to the receivership activities of the Federal Deposit Insurance Corporation. In the pending bill no specific reference is made to Section 12B of the Federal Reserve Act. However, the enactment of this section as an amendment to the existing statutes pertaining to national bank liquidations might be construed to imply the repeal or modification of those provisions of paragraph (1), subsection (m) of Section 12B which give the Corporation the right to employ agents and fix their compensation.

This would serve only to deprive the Corporation of rights now given to it by Congress to appoint agents to assist it in its duties as receiver and to fix the fees, compensation and expenses of such employees. Because of the provision in subsection (m) of Section 12B of the Federal Reserve Act, giving the Comptroller of the Currency the right to approve any fees, compensation or expenses so fixed by the Corporation as receiver of a national bank, his office already has full authority to protect the interest in national bank receiverships of all creditors other than the Corporation.

Section 4

Section 4 of the bill under consideration provides that whenever all the assets of an association which has been placed in the hands of a receiver shall have been distributed by the Comptroller of the Currency in accordance with the provisions of Section 5236 of the Revised Statutes of the United States, the Comptroller of the Currency may call a meeting of shareholders of the association to vote upon the question of whether the receiver shall continue to wind up the affairs of the association or an agent shall be elected for that purpose. In lines 11 to 14 on page 9 of H. R. 12447, reference is made to the distribution of the assets of the association in the hands of a receiver "by the Comptroller (of the Currency) in accordance with the provisions of Section 5236 of the Revised Statutes of the United States" and to the payment in full of all claims "by the said Comptroller".

Paragraphs three and four, subsection (L) of Section 12B of the Federal Reserve Act, as amended, now provide that whenever

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any insured national bank shall have been closed by action of its board of directors, or by the Comptroller of the Currency, as the case may be, on account of inability to meet the demands of its depositors, the Comptroller of the Currency shall appoint the Corporation receiver for such closed bank, and no other person shall be appointed receiver of such closed bank. It is further provided that it shall be the duty of the Corporation as such receiver to realize upon the assets of such closed bank and to wind up the affairs of such closed bank. The Corporation is specifically directed to retain for its own account such portion of the amounts realized from such liquidation as it shall be entitled to receive on account of its subrogation to the claims of depositors, and to pay the depositors and other creditors the net amounts available for distribution to them. With respect to such closed bank, the Corporation, as receiver, is given all the rights, powers, and privileges now possessed by or hereafter granted by law to a receiver of an insolvent national bank.

Section 4 of H. R. 12447 can be construed as superseding the above-mentioned provisions of subsection (L) of Section 12B of the Federal Reserve Act. We have no objections to any of the provisions of the pending bill insofar as they apply to receiverships contracted for by the Comptroller of the Currency prior to January 1, 1934. However, as previously stated, we are sure that neither this Committee nor the Comptroller of the Currency intends to affect the existing powers of the Federal Deposit Insurance Corporation as

receiver of national banks which fail subsequent to January 1, 1934. We also believe that it is not the desire of this Committee to leave its intention in this respect subject to any doubt. It is therefore respectfully suggested that the Committee write into the bill a clause to the effect that nothing therein contained shall alter or affect in any manner the existing powers of the Federal Deposit Insurance Corporation as receiver of a national bank. It is also suggested that following the words "notwithstanding any other provisions of law," in line 10, page 2, there be inserted the words, "and except as herein otherwise provided", in order that the suggested clause excepting the Corporation might be given full effect.

We have not discussed the provisions of the second paragraph of Section 1, commencing with line 4 on page 2 of the pending bill, as we understand the Committee has already determined that this paragraph shall be stricken. The Corporation would recommend against the enactment of this provision as drawn and if the Committee intends to give further consideration to the paragraph the Corporation desires an opportunity to present its objections at length at a further hearing.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 12, 1934

TO Secretary Morgenthau

FROM Mr. Haas *MA*

At 11:30 this morning you called me on the telephone and requested that I have prepared a memorandum on the trend of money rates, with particular reference to short-term bills, etcetera.

You asked that I have this ready for you tomorrow morning.

*Miss Klotz, Section 9 should go to F.L.K.
with note from me. Huf*

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 12, 1937, 9 a.m.

NO.: 38

FROM COCHRAN.

This morning I returned from Basel where on Sunday and Monday the BIS directors had their meeting. Most of the discussion centered upon drafting an amendment to the statutes which was made necessary by the plan for separating the offices of Chairman of the Board and President of the Bank. I described this plan in my telegram of December 15, 10 a.m., No. 1255. The directors did not vote on a final texts, but in informal discussions they agreed on all important points. At the February meeting texts will probably be adopted.

I had a conversation with Trip, in which he told me definitely that after the close of the present business year he would not continue as Chairman of the Board. It has been arranged that Beyen shall be made President, and Trip thinks it best that the two principal positions of the Bank should not be held by men of the same nationality. He reminded me that his acceptance of his present position had in the first place been with the understanding that his incumbency was temporary and provisional.

END SECTION ONE.

BULLITT.

EA:LWW

SECTION TWO. No. 38 of January 12, 1937, from Paris.

Mention has been made of Sir Otto Niemeyer as the most likely successor to Trip as the Board's Chairman. I was told by Governor Norman that for the present he would not name a successor to Porters who was British resident manager of the B.I.S. and who resigned last June. Governor Norman said that there were too many resident officers now, and that in his opinion there should be reorganization of the Bank in such a manner that central banks would no longer nominate their own nationals to posts within the B.I.S., and leave the appointment of every one to the immediate direction of the Bank. Discussion took place in this regard when amendments were being given study this weekend.

There is feeling by the Italians and Germans at least that a quite friendly attitude toward the British is held by Beyen. Beyen, the French think, will eventually get rid of the French General Manager, Quesnay. Therefore there is some concern lest there be too much control by the British should Niemeyer become Chairman of the Board, and with Beyen as President, Jacobsson a Swede as head of the Economic Section, and Norman holding in abeyance the naming of a British manager until developments show what caliber of officer may be required for the position. An attempt is being made by Schacht to safeguard or improve Rechsler's position; the latter is German assistant manager. Preference was expressed by the Italians at seeing Bachmann of Switzerland become the Board's Chairman rather than Sir Otto Niemeyer. END SECTION TWO.

BULLITT.

PARAPHRASE.

SECTION THREE. No. 38 of January 12, 1937, from Paris.

Some gossip is heard that the British, by the date of the annual meeting, will try to have Governor Rooth of Sweden made a B.I.S. director again. Should this happen, the French will insist that a director be appointed to represent Poland or Czechoslovakia, and Germany will want one from Austria or Hungary.

Inquiry was made by several with regard to the possibility of the United States participating in the B.I.S. officially. One of the Bank of England's young officers has just finished a three months' stay at the BIS. A similar representative from the Bank of Italy has arrived to pass few months' service there. Yanangita, the Japanese director, urged upon me the desirability of having an American in the BIS. He insisted that to avoid European politics an American should be the chairman.

I had a conversation with Trip, who told me that the recently consummated arrangements for gold reciprocity between the United States and the Netherlands were working satisfactorily. He said he had been earmarking gold in New York with dollars which he acquired in suppressing his currency. He said that the operation was expensive, and added that the Federal Reserve handling charge was the reason for his not pegging his rate at a depreciation of 20% but pegging it at 19.5 instead.

The Swiss Governor, Bachmann, spoke of his gold shipments to New York. He again inquired regarding the possibility

sibility

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sibility of Federal Reserve Bank of New York accepting his earmarked gold at some central bank on the Continent. Bachmann and Trip had a discussion of their technical problems. I believe that either Bachmann or Trip or perhaps the BIS will ask the Federal Reserve whether the Dutch could cede some of their earmarked gold in New York to the Swiss who want to build up a stock there. The Swiss could then ship gold to Amsterdam from Bern, thus avoiding shipping gold across the Atlantic. I was asked by Bachmann to give him any data I may obtain from time to time regarding plans of the United States on gold sterilization. Bachmann said he himself was facing a problem somewhat like the American problem, and he wanted to benefit from the experience we have. The remark was made by Trip that the equalization fund of the Netherlands was following a policy quite similar to that which the American Treasury is now inaugurating. The B.I.S. resident officers incidentally told me of their desire to cooperate with the United States in effecting certain gold deals in behalf of central banks in countries which are party to the six-power reciprocal arrangement. They plan to seek more exact information from the Federal Reserve so that undue delays in formalities attending their operations may be avoided. The United States is suffering from too much gold, they say, and they are anxious that

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that distribution of it be made. The BIS, they state, is accepted agent of numerous central banks in effecting gold operations, and really useful bilateral service could be rendered by it in the continuation of this work.

The view which Governor Franck of Belgium previously expressed to me that countries with any sort of exchange control or restrictions should not be admitted to the technical benefits of the tripartite arrangement is shared by Governor Trip also. It is the opinion of both officers that no countries should be added to the present six, but that the BIS should be the medium for gold transactions with the remainder at least of Europe.

Reference is made to my telegram No. 1296 of December 28, 11 am. In that telegram I gave the reasons as advanced by Rooth why Scandinavian central banks are at present not inclined to adhere to the tripartite arrangement. In confidence I was given by my Swedish contact at Basel the following two reasons which probably had much to do with the attitude taken by Rooth and perhaps that of some of the other Scandinavian Governors although they could not reveal them in a letter:

First: Rooth fears that the Swedish Socialist Government might be too prone to follow the example of the United States if the tripartite declaration should be adhered to by Sweden. In other words, Rooth desires to maintain the independence of his Bank in so far as is

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practicable. Rooth thinks that in the United States the trend is for the Treasury to have more and more control over the currency and over credits. He feels that while this may not be so dangerous in the United States, in his own country it would not be at all desirable, nor would it be desirable in certain of the Scandinavian countries, in view of the fact that power is in the hands of the Socialists.

Second: Rooth feels that there has been too large a depreciation of the Swedish crown. He believes that there is a real possibility that his country may find it desirable to move the rate up about six points so that the crown is devalued just to the same extent as sterling and so there will be restoration of old parities.

In Sweden it has been found that with the present devaluation they are having to pay too much for raw materials from foreign countries. Swedish exporters are even in favor of an upward readjustment of the crown, and they prefer that it be done now while the profits from their business are still sufficient to permit such a move, and if it were done later there might be more serious international competition.

Rooth and Ryti of Finland had a discussion on the foregoing; the Finnish currency has also been depreciated below sterling even further than the Swedish crown, and Finland is facing about the same situation as Sweden.

My

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My contact said he would not be at all surprised if Sweden and Finland may soon move toward raising the exchange value of their respective currencies.

Under the present circumstances, Rooth and Ryti do not feel that they can properly adhere to the tripartite arrangement. These governors want their hands left free to move their exchange (?) even though the move may be upward and not in the downward sense against which a strong position was taken by the tripartite agreement.

END SECTIONS THREE TO SIX, INCLUSIVE.

BULLITT.

EA:LWW

SECTION SEVEN. No. 38 of January 12, 1937, from Paris.

The Governor of the Bank of Italy, Azzolini, invited me to dinner Sunday night. He entertained all the foreign delegations except the Germans, who were the guests of Beyen in spite of the fact that German tactlessness incident to the Dutch royal marriage had made Dutch representatives unhappy. I was told by the Italians that they had had a fine winter tourist season. Their trade balance as lately revealed by the Minister of Finance was quite encouraging, and they had had satisfactory results from subscriptions to the recently announced loan for consolidated Italian shipping. The Italians were, furthermore, pleased with pacification of Ethiopia, and with the setting up of Italian enterprises to develop that territory. The rumor was denied that part of the shipping loan was being taken by British interests.

Concern over the French budgetary and treasury situation was expressed to me by the Dutch, Swiss, Italians, Germans and British. I was asked by Trip whether I had heard anything of French effort to ^{obtain} ~~raise~~ a loan from Mendelssohn. Norman told me that a rumor was again current that British banks were being approached by the French Treasury for a second credit from them. He again said that he was opposed to the idea of such a banking credit since it would solve nothing - which remark he had volunteered in December. It is my understanding that a few weeks ago when the French raised the question of a
second

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second credit with the British, the French were advised to liberalize their own gold and other related policies so that capital which already exists in France might be invested in ~~the~~ government securities. It was pointed out that should London make such a loan, the actual fact would be that the French Treasury would be paying the British bankers for lending back capital which had fled from France to England. Further appeal to the British can be conceived, since on December 15 the French took steps which they considered as appropriate liberalization of policy, and since they have not yet had satisfactory results therefrom.

I had a talk about French facilities for borrowing with Cobbold of the Bank of England; Cobbold acts as Liaison Officer with the Bank of France, and he visited Paris en route from London to Basel. He believed I was inclined to be overly optimistic in regard to the French Treasury being able to meet immediate needs through treasury bills. He is of the opinion that in spite of steps recently taken to widen the Paris stock market to relieve the situation, French investors and banks will refuse to absorb a sufficient additional amount of such bills. Less pessimism was expressed by Niemeyer regarding France than was expressed by his British colleagues, Cobbold and Norman. Niemeyer realizes that in France there has been some real economic and social recovery. He thinks that if the present

present

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present Government has the necessary courage, it may possibly pass successfully through its financial difficulties.

I was told by Niemeyer that on the thirteenth of January he sails on the BERENGARIA for New York. He will be accompanied by Secretary Reid of the British Council of Foreign Bondholders, the two of them to confer with Reuben Clark of the Foreign Bondholders Protective Council in New York. My contact said he was anxious to arrange for some sort of closer cooperation between the two organizations vis-à-vis their common debtors; he thinks that such cooperation and constant consultation would be of benefit to both the United States and England. Britain's obvious desire, incidentally, to work in harmony with the United States in future foreign lending may prove to be perhaps Great Britain's strongest reason for regularizing her war debt position and removing the ban of the Johnson Act on foreign lending. I was assured by Niemeyer that he was going to New York solely for the purpose of visiting Clark, although he would of course see Governor Harrison, who is a friend of his. He does not want any publicity lest it be reported that he is on some trade mission or war conference.

END SECTIONS SEVEN AND EIGHT.

BULLITT.

EA:LWW

SECTION NINE. No. 38 of January 12, 1937, from Paris.

I had a separate conversation with Schacht. He made reference to his article in Foreign Affairs on the question of colonies for Germany. I asked whether he had made any progress in this regard with the French and the British. The French attitude, he said, after his visit ^{to Paris} /late last summer, was satisfactory; the Germans had found it entirely possible to have direct conversations with the French. The British, he said, had not yet given a definite or formal answer to Germany's plea for raw material resources although he had been most discouraged by Eden's attitude and the British rebuff to the French approach on this subject after Schacht's visit to Paris. Schacht reminded me of the Hitler Government's sincere offers for disarmament and peace. One after another of these offers, he said, including that of limiting the army to 300,000 men had either been totally ignored or had been refused. He told me he thought they might be making their last offer in the outstanding offer for peace in return for colonies. Great Britain and the world, he said, should understand that the Hitler Government is firmly established, and if there is any attempt to humble Germany the German people will be solidly behind it.

Schacht said again that it is not possible to have world peace without German peace. He emphasized the efforts ~~xxxxxx~~ and aims of the United States toward peace. He expressed

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expressed the hope that the United States would not let slip the opportunity which he says is now ours, particularly the President's, to take the lead in solving the outstanding questions of Europe, and primarily Germany's problems.

The idea of a Washington conference was mentioned by Schacht; I asked him why in Washington, and he replied that the United States has now the world's leadership and the wealth to make it effective so that other nations should be called to Washington for conference and discussion. I asked Schacht whether he had been told the scheme which had been suggested to me that day by one of my earnest Central Bank friends; i.e., for Germany to borrow from the United States to buy neutral territory from England and for the latter to apply the proceeds of the sale upon British war debt to us. This suggestion was made by Yanagita (Japan). The reply of Schacht was that he was not suggesting the measures that should be taken; however, he hopes that we would take advantage of Runciman's visit and that of another distinguished Britisher - Niemeyer, I assume - to indicate to the British that we are interested in a final and happy liquidation of the problems facing Germany.

Schacht's Basel representative, Heschler, told me that the atmosphere created by press accusations of German activities

activities

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activities in Morocco had disgusted Schacht. This subject was discussed at length by Schacht and Norman. According to Heschler, Schacht told him/^(Heschler)that the whole press story was a pure fabrication, that Germany had sold certain supplies to France and the latter could not pay in cash; consequently there was some activity in France shipping to Germany in a barter for such supplies, ores, and other materials which could be obtained in Spanish Morocco. The affair was no more than that. Niemeyer remarked, in discussing the article of Schacht's in Foreign Affairs, that the two raw materials which are needed most by Germany, rubber and wool, are not commercially available in the colonies which Schacht is seeking.

February 8 has been set as the date for the next meeting of the B.I.S.

END OF MESSAGE.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Tokyo, Japan

DATE: January 13, noon

NO. 5

RUSH

I refer to Department's No. 3 of January 11, 5 p.m.

(1) Conditions in Japan have not as yet become serious, although the present financial situation is less favorable than it has been for some years past. At the end of 1936 the national debt rose to well over ten billion yen (over eleven billion yen if the external debt is calculated at the present rates of exchange), but for a nation the size and power of Japan, this amount does not appear to be excessive. **Easy money rates prevail.** The note issue today (one billion, four hundred and thirty-eight million yen) is covered to about 66% by the specie reserve and there has been little or no currency inflation. The visible foreign trade balance for 1936 was unfavorable to Japan by one hundred, thirty-four million yen, but a favorable invisible trade balance (amount as yet undetermined) partly offset this.

(2) A fairly strong financial position is indicated by the above factors, but the following unfavorable factors have been weakening and will weaken that position further:

(A) Difficulties have been experienced by the Government

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ernment in disposing of the issues of 3 1/2% deficit bonds of the present fiscal year and the market price fell below the issuing price in November.

(B) The 1937-38 fiscal year budget which is greatly increased will require the issuance of almost one billion yen additional deficit bonds, and it will probably be necessary for the government to exert pressure on the trust companies, banks, et cetera, to force them to buy the 1937-38 issues.

(C) The fact that the banks are not able to dispose of the bonds to the public as fast as they acquire liabilities in respect to the bonds makes for dangerous inflation of credit.

(D) The import excess for 1937 will probably be larger than for 1936 as Japanese exports are meeting increased opposition abroad, while imports of raw materials will increase because of the demands of the munitions and allied industries. This will cause further pressure on the yen.

(E) Although the amount of the Yokohama Specie Bank's foreign exchange reserves abroad is not published, foreign bankers in Tokyo are of the opinion that those reserves (formerly three or four hundred million yen) have been seriously impaired, due to efforts to maintain the

yen

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yen at one shilling and two pence in 1936. Therefore, it will become more and more difficult for the bank to maintain the value of the yen at the figure above stated.

(3) The factors show the government's difficulties in regard to the value of the yen and the price of bonds. Since the February 26 incident, there has been steady pressure on the yen and in December last this pressure became so great, when coverage had to be found for unusually large cotton purchases, that the yen declined. This weakness together with the fear of the further pressure which would result from large speculative imports which were expected in anticipation of the projected increased tariff rates, were the causes for announcing and putting into force on January 8 the foreign exchange control regulations (which are tantamount to an import licensing system). It has been explained by the Finance Ministry that the exchange control regulations are aimed against speculative imports and will not be employed to curtail necessary legitimate imports of raw materials such as wool and cotton, and with the further design of spreading imports over the year so as to avoid sudden heavy pressure on the yen. However, the imposition of the regulation shows clearly the yen's weakness and the scarcity of funds with which to stabilize
foreign

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foreign exchange.

(4) It is the general opinion of competent observers that the financial situation in Japan is steadily growing worse, being perhaps less sanguine at this moment than at any time in the recent history of Japan.

The

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The chief reason for this is the abnormally large proposed budget for 1937-38 which is over thirty percent larger than the budget for the present fiscal year. The budget with its inevitable additional burden of deficit structure's weakness. The Japanese nation, through this budget and succeeding budgets which promise to be even larger, will have burdens thrown upon it faster than the increasing economic resources can take care of them. Observers believe that the Government consequently will not be able to escape difficulties in maintaining the price of Government bonds and in sustaining the yen's value at one shilling two pence. Announcement has been made by the Yokohama Specie Bank of its intention to hold the yen at this value largely it is believed because of the fear that should the yen fall to new low levels increased opposition abroad to Japanese exports will be raised. It is believed, however, that Japan is in no pressing danger of a financial collapse. There is prevailing opinion that the Government will take further artificial measures much along the lines of the steps which Germany has taken to sustain its financial structure, which measures will be designed especially to maintain the value of the yen and the price of Government bonds. It is believed that the

Government

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ment will succeed through such artificial measures in preventing a dangerous crisis in the near future, although it will not be able to avoid a considerable measure of credit inflation accompanied by a rapid price rise.

(5) I have given above a general discussion of the present financial situation in Japan. Should the Treasury desire more specific and detailed information, an attempt to obtain the necessary data will be made by the Embassy.
END MESSAGE.

GREW.

EA:LWW/DJW

January 13, 1937

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The Secretary asked me to advise Mr. Eccles that he (the Secretary) is hopeful that the Federal Reserve can reach a definite decision for announcement not later than February 1st as to whether or not they are to increase excess reserve requirements at this time. If their decision is in the affirmative, the Secretary is hopeful, I was further to inform Mr. Eccles, that the effective date will be not later than February 15th so that two weeks can elapse prior to any announcement by the Treasury with respect to March 15th financing.

I went to see Mr. Eccles and gave him this information, stating that the Secretary feels that the market is a little jumpy and that there are a good many comments to the general effect that the uncertainty as to Federal Reserve Action is the main disturbing feature in the market.

Mr. Eccles was disposed to think that the Treasury would have no particular financing problem on February 15th and need not be specially worried about the state of the market so far as Treasury financing needs are concerned. He referred to the difficulties that are always made in getting the two groups -- The Federal Reserve Board and the Open Market Committee -- to reach a decision. He discussed some possibilities of reaching a decision by the 15th of February or announcing a decision on the 1st or the 15th as being effective 6 weeks later.

I again represented the Secretary as hopeful that the schedule as suggested by him might be carried out and Mr. Eccles agreed that it could and would be done. He said he would be prepared to enter into a preliminary discussion at luncheon on next Tuesday.

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I suggested that he might want to find out at once what the actual reserve position of all banks is and he said he would call Mr. Smead at once on that.

Mr. Eccles discussed one or two other matters. He is of the opinion that the substantial price rise in some commodities is growing out of labor trouble. He referred particularly to the strike on the Pacific Coast and the situation in the lumber industry saying that there is a good bit of forward buying based upon expectation of further price increases. He referred to the report of the President's Committee on administrative management and said that some inquiries were being made as to whether the Federal Reserve was to be grouped under the Treasury.

I told him that I doubted that that was contemplated for the present but that the report might serve to arouse suggestions on the Hill for a monetary authority more closely identified with the Government than the Federal Reserve system now is.

He said that personally he had no great interest in whether the Federal Reserve was grouped with the Treasury or not.

During the course of the conversation Mr. Eccles expressed his pleasure that the Treasury was only offering fifty million of bills each week now, saying that he wanted to see excess reserves increase just at this time.

Upm.

GENERAL MOTORS CORPORATION
EXPORT DIVISION
GENERAL MOTORS BUILDING
BROADWAY AT 57TH STREET
NEW YORK, N. Y.

"CABLE ADDRESS
"AUTOCORRY" N. Y."
ALL CODES USED

January 13, 1937

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

My dear Mr. Secretary:

Mr. Mooney telephoned me from Washington this noon, following his very pleasant conversations with you, to tell me of the interest you had expressed in the monetary situation as it is currently manifesting itself in Japan, and to ask me to give you whatever information I could bearing intimately on the subject.

It happens that we have been in close cable contact with our Osaka office within the past few days, as we are continuously, and the opinions set forth below give weight, therefore, to the knowledge made available to us by our representatives on the ground, as well as to the interpretations provided by our financial officers back here.

The recent emphasis put upon the exchange restrictions prevailing in Japan relates, of course, to a development which is not new in itself, since these restrictions have been in actual effect for a number of years. Under this prevailing system, free exchange may be procured only for imports of bona fide merchandise shipments, with other demands, such as the remittance of profits, requiring special government license in all cases. The implication of the newly published ordinance, as we see it, is that a much sharper control and supervision of exchange transactions will be exercised by the authorities in the future, but we have no direct evidence, actually, that this will result in any reduction in the total amount of exchange allocated. In our own business, as a matter of fact, we have been led to believe that exchange will be granted for importations of merchandise and for other purposes equivalent to the exchange requirements in the period 1935-1936, and it may well be, if this indication is typical, that the general intention of the ordinance is to keep demands for total exchange at their present level, and not necessarily to curtail them.

It is not surprising, in any event, that developments are taking on their present complexion, because for well over a year a number of things have

compared to put the yen under definite pressure. There is, in the first place, the Japanese adventure in Manchukuo, which has resulted in a tremendous drain of capital from Japan to this area for commercial expansion, and from which no return is yet apparent; and there is also the inordinately high cost of administration, both civil and military, which prevails within Japan itself. The army and navy have, for a number of years, been obtaining an increasingly large share of the annual budget, and the military institution has gradually assumed a more dominant position in the Japanese economy, reaching its greatest ascendancy, perhaps, in the military coup d'etat of February, 1936, when certain ministers, including the conservative Minister of Finance, were assassinated.

Following this development, the yen broke away from sterling and depreciated sharply. Although it seems that the military lost appreciable ground on this occasion, it does not appear to have constituted a complete defeat for them, because the most recent budget figures, published within the last month, show that 46% of the budget is still dedicated to the armed services. To offset the latest increases in the budget, an effort to raise revenues is now being made by new and heavy taxation, the effect of which might well be calculated to drive substantial amounts of capital away from the country — a thing which has actually tended to happen, and which would normally make stricter application of the exchange regulations desirable from the Japanese standpoint.

The yen has subsequently recovered, of course, but an influence tending now to weaken it further, and to increase the demand for stricter exchange regulations, has been Japan's recent heavy purchasing of cotton, which was itself undoubtedly stimulated by a desire to anticipate both a possible further depreciation of the yen and the imposition of tighter exchange controls.

The present Finance Minister of Japan has announced that the recent ordinance strengthening these controls is aimed solely at stabilizing the yen, presumably at its present level. There is some reason to believe, from this and other evidence available, that the sounder elements in Japan, as represented by the commercial interests and the parliamentary group, may be gaining strength at the expense of the military, and if this is so it should react favorably to the stability of the currency which is ostensibly being sought. The collateral evidence in this regard — if it may be considered as evidence at all — is the recent softening of Japan's attitude toward Russia and China, and the reciprocal stiffening of the attitude of Russia and China toward Japan, as well as the hurried negotiation of the pact which Japan has recently concluded with Germany. If this evidence is valid, it provides ground for belief that Japan may have reached the end of her tether; that she may realize this herself equally with other nations, and that this realization may serve to induce a less profligate national finance, which could well reflect favorably, in the future, upon the value of the yen. This development may, on the other hand, indicate merely that Japan is pausing for breath today in an effort to put her house in better order.

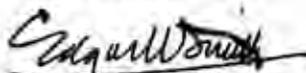
January 13, 1957

However this may be, the future outlook on the course of the yen is inherently pessimistic by reason of the precarious fiscal situation prevailing internally in Japan. This is a basic consideration which will continue to affect the current trend in the value of the Japanese currency, however stringent the exchange regulations imposed may be. It seems clear that the greatest danger to the yen, quite apart from current foreign demands upon it, originates from the fact that the public debt has now passed what was once called the danger limit of 10 billion yen, as compared with a figure of 6 billion five years ago, and it is extremely doubtful that permanent stability of the currency at its present level, or even at a lower level, can possibly be achieved when each budget year produces new deficits which are financed by "red ink" bonds to the increase of the national debt. Far from relieving this situation, any increase in foreign exchange restrictions to a point that would seriously interrupt Japan's intercourse with the rest of the world would tend to have the opposite effect of inducing isolation, with its consequent attenuation.

This approach relates itself, basically, to the conception we hold here that the value of any national currency is determined predominantly by conditions within the country itself. We hold also, incidentally, that the currency action which any country may take, in the way of depreciation or manipulation, is of genuine importance only within the domestic confines of that nation itself, and that any tendency to look upon such monetary action as being designed primarily to secure a "competitive" trading advantage in foreign commerce is quite fallacious.

I hope this broad sketch of the situation with respect to the Japanese yen, as we have been able to appraise it from the information available to us here, will be of interest to you. If there are any specific points on which you think we could furnish additional information, you may be quite sure that the facilities we possess are entirely at your service.

Sincerely yours,


Edgar W. Smith

STABILIZING THE EXCHANGES

By

James D. Mooney

Vice-President in charge of Overseas Operations,
General Motors Corporation

Address at International Dinner, Automobile Manufacturers Association
Ritz Carlton Hotel, New York
November 16, 1936

STABILIZING THE EXCHANGES

By

James D. Mooney

Mr. Chairman and Gentlemen:

I have been asked by your dinner committee to make a few remarks on the international situation, and particularly on the processes that are being undertaken to stabilize the exchanges.

Now, ordinarily, after-dinner speeches on economic subjects are rather boring. But this subject, stabilizing the exchanges, has possibilities for trying your patience that are simply appalling.

I estimated the other day, for example, that it would take me five hours to outline the preface or preamble to this subject for you. It would take several hours to relate the exchange history of the past fifteen years and the trials and tribulations of the American foreign trader as he tried to get his money back into dollars without suffering huge exchange losses. It would take me at least three hours to give several countries abroad the right kind of hell for not letting the Americans have any exchange at all.

Altogether, I estimated that it would take me 19 hours and 20 minutes to cover the subject properly for you.

At this point I decided to go on the 50-50 principle, like the French cook who was asked how he made his rabbit stew. He replied, "I use half rabbit and half horse-meat; you know, 50-50, one rabbit, one horse."

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Now, as I said, I have decided to go on this 50-50 principle, too, and leave out half of my speech, — I mean the 19-hour half. In other words, I shall do my best to tell you what I can of stabilizing the exchanges, — in 20 minutes.

We are extremely fortunate tonight in having with us, for this discussion, the Honorable Wayne C. Taylor, Assistant Secretary of the Treasury.

Those of us who have known Mr. Taylor during the past several years have found him, as a Government official, refreshingly experienced and sound. He has gained his knowledge of foreign trade and exchange problems by practical contact on the ground, both in the United States and abroad.

I was told that this would be a private dinner, and that we could all take our hair down without fear of the inquiring reporter. Accordingly, Wayne, I am going to speak to you very frankly about some of these problems that have been bothering us for so many years.

I happened to be in Europe at the time the announcement was made of the gold bloc devaluation and the so-called stabilization pact. The official statements I read on the other side were all very optimistic, and the impression was successfully created that a decided step forward had been taken toward stabilizing the exchanges. Frankly, I was a bit skeptical about this, because the announcements were not very satisfying as to the technique to be provided for accomplishing this promised stability. My skepticism was increased by conversations I had later with

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some of the government officials most intimately concerned with the fate of their respective currencies.

I visited with Doctor Schacht in Germany; Mr. Van Zeeland, Premier of Belgium; Mr. Colijn, Premier of Holland; Professor Bruins, President of the Netherlands Clearing Institute; Mr. Charles Rist, Vice Governor and Economist of the Bank of France; Sir Frederick Leith-Ross, Number One Man of the British Treasury; and Professor Clay, Economic Adviser of the Bank of England. I am not going to bore you with the detail of these conversations, but the gist of what I gathered is this:

No attempt will be made to keep the exchanges stable, except within narrow limits and over short periods of time. What all of these countries are really thinking about is their own internal economic salvation first of all; with actual cross-rate stability coming in a bad second. France and England, as well as Holland, have doubts about the rate at which their currencies should be pegged, in relation to gold. They are not sure about their price levels in the situation.

The English say definitely that if sterling begins to drift away from gold, they will not try to stop that drift. The Dutch will use their equalization fund only as a means, as they express it themselves, of rapping on the knuckles any speculators who might be tempted to "bear" the florin. One of the most interesting expressions of any of these men was that of Mr. Rist, of France, who took a position of extreme skepticism toward some of the theories that are supporting the policies of the many countries who have embarked upon the so-called managed currency adventures.

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Now, Mr. Taylor, in order to be as brief as possible, I should like to present to you a summary of a few of the axioms, or fundamentals, or principles, or whatever you want to call them, that we foreign traders have picked up during fifteen years of experience and observation of the various paper money experiments that have been tried by all the governments throughout the world.

There are certain axioms in the situation, as they concern us here in the United States, Mr. Taylor, and I should like to pass them along to you for what you feel them to be worth. In other words, I am going to place myself in the position that Will Rogers took with the American Navy during the World War. You will remember that the Navy Department was very keen on getting suggestions for doing away with the menace of German submarines. Will Rogers, it seems, pointed out to the Navy that, inasmuch as it is impossible for a submarine to operate in boiling hot water, they could do away with the German submarines by boiling the Atlantic Ocean. One of the admirals asked Rogers, "Yes, Will, but how can we boil the Atlantic Ocean?" And Will Rogers replied, "Well, Admiral, I'm giving you the big idea, -- of course, you will have to work out the details."

Now, Wayne, I'm going to give you generally what we consider the big idea in this currency stabilization situation, and leave it to you to work out the details.

1. All of the experiments that have been conducted in paper money have one thing in common -- they are a flight from the realities of gold and gold prices.

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2. No country has ever gone off gold or ever does go off gold actually or factually. It may go off gold contractually; that is, it may refuse to redeem its paper currency at its face value in gold, but this does not change in the slightest degree the fundamental attitude of the Government or its citizens toward the attractive qualities of gold itself.

Whether a nation is "on gold," or "off gold," it is a very significant fact that gold always has been, and still is, the common denominator of all international exchange transactions. In other words, gold is the medium of exchange among paper moneys.

3. The real prices of world commodities — wheat, cotton, copper, oil, etc. — are gold prices. These prices are still governed, on a world basis, by the supply and demand for gold and the supply and demand for commodities. Internal paper prices of these world commodities in any country are a by-product of these world prices: they are determined automatically by the gold value of that particular country's paper money.
4. The rate of exchange between the paper moneys of any two countries can be stabilized only when each country's

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paper money is stabilized in terms of gold. Equalization funds can "peg" cross-rates over comparatively short periods of time and within certain narrow limits, but the exchange rates of two paper moneys cannot actually be kept stable unless each paper money itself is kept stable in terms of gold.

5. A paper money cannot be evaluated by offering to buy gold in terms of that money. Actually, it is the offer to buy the paper money, the offer to redeem the paper in definite terms of gold, that evaluates it.
6. A debtor country cannot stabilize its currency unless it exports annually more than it imports, by the amount of its annual external debt charges.
7. A national currency cannot be permanently stabilized unless the national budget is balanced.
8. The lack of stable exchange rates is not the cause of upset trade conditions in the international markets any more than high temperature is a cause of smallpox. The high temperature is only a symptom. Lack of stable exchange rates is a symptom, too; the smallpox of our present-day international trade and

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money conditions is economic nationalism.

9. It is futile to discuss international agreements for the stabilization of exchange rates of paper moneys, until such time as the stress can be taken off gold for the discharge of international obligations.

The stress on gold can be relieved only by making it possible to discharge these obligations more freely in goods or services. In other words, when we begin to convalesce from the disease of economic nationalism, when goods again are as "good as gold" for paying debts, then, and only then, shall we find it possible to keep the exchange rates stable.

10. When goods flow freely again across international boundaries, when national budgets are balanced, and when internal price levels are brought into equilibrium by fighting rising industrial costs, then, and only then, can paper moneys be stabilized in terms of gold. And only when the various paper moneys are stable in terms of gold can they be stabilized in terms of one another.

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Finally, it has been a damned nuisance to have to speculate in the exchange rates, and we, as foreign traders, will be very grateful for any action that will tend to remove this nuisance. Far more important than this, however, we need continued help in blazing away at the quotas, exchange restrictions, embargoes, and excessively high tariffs that have so effectively clogged up the whole international movement of goods.

Our American motor cars have taken a terrific beating from these restrictions during the past few years. We ought to be exporting three or four times as many automobiles as we are exporting today. The American motor car is the most desirable product that has been offered by any country for export during the past generation, and literally millions of people abroad are eager to own and operate an American automobile. But the whole fabric of international trade has been so badly broken down that this highly desired product is excluded from a very large part of the world today. It is either shut out entirely, or it must be offered at such extremely high prices that it is beyond the average buyer's reach. I say, in all seriousness, that because this is so, the sales of American motor cars abroad are not one-fourth of what they should be.

In conclusion, Gentlemen, I presume you would like me to say to Mr. Taylor, on your behalf, that the automotive industry will be very happy to continue to support the U. S. Treasury and the State Department in the excellent efforts that are being made to straighten out this badly muddled-up exchange and paper money situation.

GROUP MEETING

January 13, 1937
9:35 A.M.

Present: Mrs Klotz
Mr. McReynolds
Mr. Upham
Mr. Bell
Mr. Haas
Mr. Gibbons
Mr. Gaston
Mr. Oliphant

H.M.Jr: Good morning.

All: Good morning.

H.M.Jr: Miss Roche not here?

Mrs Klotz: No. Mr. Taylor isn't.

H.M.Jr: I spoke to Taylor.

Oliphant: Is he ill?

H.M.Jr: Yes

Oliphant: Is it the flu?

H.M.Jr: I spoke to Mrs. Taylor. She said sort of fluish, yes.

Oliphant: Manning has a temperature of 102 - yesterday.

H.M.Jr: Really?

Oliphant: Flu.

H.M.Jr: Mac?

McReynolds: Nothing except that, subject to your approval, I am taking the train at half past six tonight to see my daughter break a bottle tomorrow morning - come back tomorrow night. Be back Friday morning, be gone one day.

H.M.Jr: Good. What's in the bottle?

McReynolds: Well, I don't know.

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Bell: They won't let him know. That's wise.

McReynolds: Just because Dan's a "sissy" doesn't mean....

H.M.Jr: Coast Guard's a sissy - is that what you said?

McReynolds: I say Dan's a sissy.

H.M.Jr: Oh, Dan's a sissy.

McReynolds: Dan's a sissy. He has no interest in what's in the bottle.

H.M.Jr: Well, besides that, anything else?

McReynolds: No. No, there's nothing. This chap who was in here yesterday went away. He says he's going to wait around until he finds out what happened. I told him that was all right.

H.M.Jr: Griffith?

McReynolds: Yes. He made no protest when we told him that nothing would be done until we got this answer; said investigation would be made and a tactful reply.

H.M.Jr: All right.

Upham: Nothing, Mr. Secretary.

H.M.Jr: (To Bell) You want to stay afterwards, we'll talk bills?

Bell: Yes

H.M.Jr: Have you got your memorandum for me?

Haas: Yes, sir.

H.M.Jr: Supposing you and Bell stay and we'll talk about that.

Haas: All right. I have nothing else.

Gibbons: There's a memorandum typed on that Kleberg matter that I talked on to West two or three times. Tom Gorman investigated a fellow; Farley and Stevenson,

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agents, were up to see him. The only record I have putting myself in writing was a telegram to him asking him when he'd be here in Washington, see? The whole thing was gone through very thoroughly.

- W.A.Jr: You're going to see him yourself?
- Gibbons: I wanted to talk to you. I didn't want to do it without you talking to Kleberg or getting Kleberg's clearance. I'll go up and see him.
- W.A.Jr: Was he interested in.....
- Gibbons: This same fellow Tom is down there to be made head of this district of Senator Connally - called me up again, and Kleberg was in here the other day, said they were getting tired of our transferring Republicans from the Canadian border down to Texas. It so happens this fellow Bailey is undoubtedly a Democrat. He was born in Missouri, appointed under the Wilson administration.
- McReynolds: Transferred from the West Coast.
- Gibbons: Yes. But you'll have the memorandum. It's about - I tried to boil it down - it's about four pages long. But that will be typed in the next 20 minutes.
- McReynolds: Tom probably is the poorest - probably the poorest of all the Border Patrol men that they can take to give a responsible place; he's just terrible.
- W.A.Jr: While we are on that, Ferley called me up and said that he was calling all the Cabinet to tell them that any appointments in Texas - that the Vice President wants to be informed and consulted as National Committeeman of Texas.
- Gibbons: Oh, um huh.
- W.A.Jr: So will you keep that in mind. I think that somebody - I'll have to go up myself. Who's the head of the Border Patrol under Gorman? This Border Patrol fellow - what's his name?
- McReynolds: They've moved that a couple times.

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H.M.Jr: No, the fellow - he was in the Legal Division and we took him and....

Gibbons: You mean Shamhart?

McReynolds: Shamhart.

Gibbons: He was born in Tennessee and raised in Florida.

H.M.Jr: Well, is he a Democrat?

Gibbons: He says that the only time he ever voted in his life was for Woodrow Wilson in 1916.

H.M.Jr: If you'll remind me, I'll have to take Shamhart up there and let him sit down with the V.P. and explain what we're doing.

Gibbons: Oh, I've got a matter on my desk I've been wanting to talk to Garner about, changing a port down there, which....

H.M.Jr: Fine.

Gibbons:the economic conditions of the country have changed.

H.M.Jr: Yes.

Gibbons: Well then, this thing - he of course probably might have forgotten - this man West has a cousin over in the Bureau and she's been - she's 66 years old, and within the last 10 or 15 years she's been admitted to the Bar and she wants a legal position. And even Moyle - Moyle told her in his frank way, he said, "You're too old to be a lawyer." He said, "You ought to do something else."

H.M.Jr: Didn't know there was any age limit.

Gibbons: I shouldn't know either, but he meant to start in.

Olyphant: West has been in to see me about that a couple times, but it isn't the thing to do at all.

Gibbons: Oh yes, she's.....

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H.M.Jr: And incidentally, if anybody comes to talk to you about an appointment for Collector of Internal Revenue in Georgia, you better keep out of it.

Gibbons: Refer him to Chip Robert?

H.M.Jr: No, no. But there's a fight on between Russell and George and I'm handling it with the White House.

Gibbons: Yes.

H.M.Jr: I told them, a fight between United States Senators, I'm going to let the White House handle it.

Gibbons: Jim Farley spoke to me about that the other day before he went away. He said to be very careful if anybody called up.

H.M.Jr: Yes, and they say the two Senators are diametrically opposed to each other.

Gibbons: Now, on his launching he wants me to go down with him. Of course, Miss Roche is not here; Wayne is ill.

H.M.Jr: You better stay.

Gibbons: I'll stay here.

H.M.Jr: O.K.

Gibbons: He can break the bottle without me.

H.M.Jr: No, you better stay here. Anything else?

Gibbons: Nothing else.

H.M.Jr: Herbert?

Gaston: Well, on that same subject, I - I thought I'd like to get away tomorrow to do some outside work.

H.M.Jr: What do you have?

McReynolds: It's down in Charleston.

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Gaston: I have some appointments I'd like to fill down there in Charleston.

H.M.Jr: What's the joke?

Gibbons: He's going down to the launching.

Gaston: I was going to go down to the launching.

Gibbons: He can read my speech.

H.M.Jr: Are you serious?

Gaston: Well, if - I'd like to go if there's anything - unless you think otherwise.

H.M.Jr: There's nobody here. I mean I'm all by myself. I mean there's Wayne away and everybody else - and with Mac away.

Gaston: Sure, it isn't necessary.

H.M.Jr: Will there be another one there? How many will there be?

Gaston: Oh, this is just one launching down at Charleston.

H.M.Jr: What day is the launching?

Gaston: Tomorrow.

McReynolds: He'd have to go on the same train I go on tonight.

Gaston: I'd have to go tonight and come back Friday morning.

H.M.Jr: Well, if you don't mind, Herbert....

Gaston: All right, I don't mind at all.

H.M.Jr: I don't want - I don't think it's - I'm not going to get so short-handed.

Gaston: Yes, yes.

H.M.Jr: I'm carrying all I can.

Gaston: Right.

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H.M.Jr: You don't care, do you?

Gaston: No, not at all, sir.

Oliphant: Somers sent his Clerk of Committee in last night to see Mr. Clinton Hester, and the obvious purpose was to tell Mr. Hester that the reason - (this portion inaudible to reporter) - is he just didn't know anything about it at all.

H.M.Jr: Who?

Oliphant: Somers.

H.M.Jr: Who's going to go there?

Oliphant: You are. You're to have the written invitation from the Committee for 10:30 tomorrow.

H.M.Jr: Oh.

Oliphant: That's all. It's merely a question of he just doesn't know anything.

H.M.Jr: Somers?

Oliphant: Yes, and he wants to find out about it. The only alternative would be for somebody - but I'm sure that - that you - but you could decide to answer....

H.M.Jr: No, I rather look forward to it. I think it's all right.

Oliphant: You'll get your usual letter of invitation.

H.M.Jr: Just an executive session?

Oliphant: Executive session.

H.M.Jr: Well, you see right there, if nothing else.... You see, Herbert?

Gaston: Yes.

H.M.Jr: What?

Gaston: Yes.

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H.M.Jr: Now just a minute. There is a press conference tomorrow and we'll have to shift that. Press conference when, 10? This meeting is at 10?

Oliphant: 10:30. You'll have to shift it.

Mrs Klotz: Friday.

H.M.Jr: If the boys want to see me, would you want to make it today, or make it - I can do it 9:30 tomorrow or 10 o'clock Friday. Why not 10 o'clock Friday?

Gaston: I think that would be better. They don't like 9:30 very well.

H.M.Jr: Well, 10 o'clock Friday.

Mrs Klotz: Would they rather have a 10:30 meeting?

H.M.Jr: What's the usual time?

Gaston: 10:30.

H.M.Jr: All right. The Weights and Measures in the House are going to have a Committee meeting at 10:30 tomorrow, Dan.

Bell: Have you been called?

H.M.Jr: Yes. It's an executive.

Oliphant: That's right.

H.M.Jr: And I think that you'd better go along with me. And you (Mrs Klotz) let Lochhead know - Arch Lochhead, see? And you (Oliphant) go. Who else?

Oliphant: I think I'll take Opper with me. He's never attended one of those and I'd like for him - if it's satisfactory with you, I'd like to.

H.M.Jr: (To Bell) Would you have that usual little page?

Bell: I'm getting up some material.

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- H.M.Jr: And Herbert, I guess you might go too.
- Gaston: (Nods affirmatively)
- H.M.Jr: And I'll tell you what let's do. Let's meet in the office here tomorrow morning at 9:30 and have a little dress rehearsal.
- Oliphant: I might say in that connection the most useful thing to give the Committee is what the Committee can use on the floor in explaining.
- H.M.Jr: I don't see we can give them much of anything.
- Oliphant: I mean I don't think - the effort is not going to be to get the confidential stuff. The effort is going to be to educate them what they can say in defense of it when it comes up on the floor.
- H.M.Jr: I think what I'll do is what I did up before Appropriations, explain the thing. I talked about an hour, didn't I?
- Bell: Yes, sir.
- H.M.Jr: And give them in confidence the figures that I gave those people up there. Now, I say, "Now, gentlemen, you ask me any questions you want and I'll answer what I can. What you need in the way of information, see?" But now, this is one subject that I do know if I know anything, and let's just see now we get along.
- Oliphant: Unless you prefer to do it, it won't be necessary for you to volunteer those figures.
- H.M.Jr: Well, every time I've done it they liked it. And I don't see - I know when we were up on the Hill the other day with the Speaker and Joe Robinson - who was it told me that the Speaker said he...
- Oliphant: Told you afterwards.
- H.M.Jr: ...was tickled to death. Bankhead.
- Oliphant: Yes.

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- H.M.Jr: And I don't mind kind of having them leak out. If I did, I wouldn't give them out. I think it's something to be proud of.
- Olyphant: But the purpose is to educate some of them.
- H.M.Jr: Well, let's meet at 9:30 and we can ask each other questions, and that's all then.
- Cy, I wish that you'd go over and have a little talk with our friend Eccles, see, and ask him when he's going to make up his mind on excess reserves, because the market is getting awful shaky all over, see? Now, when they announced last time didn't they announce it on the 15th of July to take effect first of August? Is that what it was?
- Upham: It was two weeks in advance, yes.
- Gaston: 15th of August was....
- Upham: First of August to... two weeks before it was effective. We've got the exact dates.
- H.M.Jr: No, it wasn't August, it was July. I think he announced it the 15th of July effective the first of August. Well, you might tell him for me that as far as the Treasury is concerned the deadline is the first of February effective the 15th of February. See?
- Upham: Very well.
- H.M.Jr: Because then that only gives us - 15th of February - that only gives us two weeks to allow financing for the first of March. I don't think he realizes that. So, in other words, between now and the first of February I really would like him to make up his mind. Do you think that's an unreasonable request?
- Upham: No. I thought you would make that request last time we discussed it at lunch and he said he wouldn't know until the first week of February.
- H.M.Jr: That's why I'm changing.
- Upham: I think you ought to, yes.

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- H.M.Jr: I mean that that is why I am changing, because that was my recollection, that he wasn't going to talk to us again about it until after the first of February. Now, what I am saying to him is I'd like - I mean I can't - I'd like if - we told him that January and February would be clear, but he's got to announce on the first of February effective the 15th of February, and then that only gives the market two weeks to shake down until the first of March.
- Upham: I should think so.
- H.M.Jr: Don't you think so, Dan?
- Sell: Yes, they certainly have got to do something pretty soon.
- H.M.Jr: The market is in a churn and every newspaper has reference to it. Here's in the Tribune - I'll give it to you. It might show it. I think they are sensible to that stuff too. It says here: "The belief, held for a while, that the Treasury would sell additional bills to sterilize gold imports has nothing to do with the increase of the rate, for it is now rather well established that for the time being repayments by banks from war-loan deposits constitute the preferred mechanism. Increased charges on the bills are due entirely to the reserve requirement puzzle."
- Haas: You might well want to hold up Cy's talking to him until you see this memorandum. I mean for half an hour. The reason I say that is Goldenweiser sent over a study which they made of the New York situation, which is a little tight, and that probably has got Eccles in a corner.
- H.M.Jr: I asked Eccles to send me over a memorandum.
- Haas: Oh, what - maybe I've got it.
- H.M.Jr: I asked him to send me over a memorandum on short term, on money rates.
- Haas: Oh, I see.

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H.M. Jr: (To Upham) You might call him up.

Haas: Goldenweiser had a meeting and they had it up.

H.M. Jr: Call him up and ask him where that thing is.

Upham: Surely.

H.M. Jr: And at Haas' suggestion I'd put off calling Eccles until I have a chance to talk with Bell and Haas. But I've got this in my mind and I just think - maybe today isn't the day. But let's see what Haas has got on his mind. But I asked him to send me this memorandum on money rates and if the thing is in existence I'd like to have it while Bell and Haas are here. Because - I don't know whether you people have noticed, but the last two weeks there has been a sharp drop in the New York Times business index - very sharp drop - and if that goes two weeks more..... And in talking yesterday to Burgess, he says - I mean when you get to the bond market jumps up or down 10, 12, 13 thirty-seconds in a day, it's all due to this uncertainty over here at the Federal Reserve Board. I mean that's what Burgess said.

Upham: You don't want to give Mr. Eccles any expression of your view as to whether he should do this?

H.M. Jr: No, all I will say is - what I am saying is I'd like to be talked to before the first of February.

Upham: Yes.

H.M. Jr: I'd like to be talked to before the first of February. As a matter of fact, I'd like to have him ready to talk something about it next Tuesday. Let's put it that way: I wish he could begin to discuss it with me next Tuesday.

You know, the worst thing - I mean we've been through this thing now so long - the worst thing is when people can't make up their mind which direction they're going, I mean. And with this strike situation in Michigan and if that thing should extend, those fellows over there have just got to make up their mind.

It's very nice, Mr. Eccles keeps saying he could make

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up his mind if it wasn't for his Board and staff. But you get it - I mean when you talk to him, of course, all I am asking is that he talk to me before the first of February as to my limit. He'd have to have two weeks; then we need from the 15th of February until the first of March to let the bond market settle down. All right.

Oliphant: Now, Crouter, a special man in Justice, is going out to Chicago to look into the whole Malone case - from Jackson's office.

H.M.Jr: Good.

Oliphant: He came up. And there's a motion for change of venue. They're trying to get away from Judge Barnes, the best Federal judge in the country. Barnes will rule on the change of venue. Crouter will be out there in the meantime.

H.M.Jr: Who's asking the change of venue?

Oliphant: The defendants are - the lawyers.

The other question is about the meeting with the Committee on Banking and Currency. Did Glass want us to do anything?

H.M.Jr: The only thing I've got is from you.

Oliphant: You called him.

H.M.Jr: He said if he wanted us during the day he'd let me know, and I haven't even called.

Oliphant: Well then, there's going to be no witnesses at all, merely an executive.

I heard that Bulkley was going to have a lot of fun out of Glass, going to ride him for his opposition in the executive meeting - that Bulkley was going to have some fun out of him.

Gaston: Better look out or they'll get Glass stirred up.

H.M.Jr: Yes, they'll get their fingers burned.

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Oliphant: That's what I was afraid of. That's the reason I mentioned it. Leave Glass alone and he's all right.

H.M.Jr: Well....

Oliphant: I don't think anything's indicated.

H.M.Jr: I don't know. No use worrying about it. I mean whatever is said is said, and Fate will take care of it. Just have to wait.

Oliphant: That's all then.

Haas: I've got one other thing, which will take.....

H.M.Jr: You're going to have - you and White are having lunch with me. You and White are having lunch at a quarter of one. I can't walk, but I can eat. I'll give you plenty of time.

Haas: O.K.

Oliphant: Well, at that time they can describe to you this set-up. And their new men on taxation - they were over here with a well-developed plan for the use of the tax mechanism for control of foreign securities.

Haas: It wasn't well-developed at the end.

Oliphant: We don't want Marriner to shoot prematurely on that, because it is a very serious thing from the Bureau standpoint, like that Associated Gas thing.

H.M.Jr: Do you want to tell him, Bell, or don't you think you can, what Eccles did in the way of trying to get information. Would you tell him that?

Bell: Well, I don't know how far he went. I haven't been able to get in touch with Corry Gill. But Jesse Jones showed me an original of a letter yesterday which Eccles had sent to him, asking for the fiscal policy of the Corporation over the next six months, how much its expenditures will amount to, how much its revenue is expected to be on repayments, and how much do they intend to sell of the P.W.A. securities, all of this information

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being needed because of the Federal Reserve Board's control over the money market. That's all.

H.M.Jr: Well, the point is that all of that information is furnished to the Treasury and if Eccles wants that kind of information the place to get it is from the Treasury.

Bell: As a matter of fact, we furnish it to Eccles' organization as a total picture of Treasury operations.

H.M.Jr: We do?

Bell: Yes, sir. Every time we have a meeting of the Open Market Committee, I furnish Peyser the program for three months, knowing the - what the Treasury balances will be each month, beginning and end.

H.M.Jr: Who's Peyser?

Bell: He's one of Goldenweiser's men who works on Treasury financing.

H.M.Jr: Well, I don't want to do it now at the time, but one of these days I want to take up the question anyway of the information that goes out of the Treasury to the Federal Reserve and from the Federal Reserve to us. I think it ought to flow through one channel, because every time I am always hearing of more stuff and I don't think they know over there half the stuff they get.

Bell: Well, the same information that is furnished to Peyser is furnished to the Open Market Committee here. He merely gets it in advance so that he and Goldenweiser can discuss the matter.

H.M.Jr: You might think it over, Cy, when you go over, whether you'd rather have me say something to Eccles, see? He's stepping over the authority that he has, inasmuch as he's getting it anyway. I mean he's definitely stepping into our field. Think it over whether you want me to say it or whether you say something, because it's embarrassing for you, it isn't for me. Think about it.

O.K.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

January 18, 1937.



Dear Henry:

I am enclosing a revised copy of a letter I have sent to Stewart McDonald covering the extension of Title II of the Housing Act. The letter is an outgrowth of his request that I accompany him to the White House when he went to discuss the matter with the President. I decided against that procedure and he then suggested I give him a letter stating my views which he could use in his discussion with the President, which I told him I would be glad to do. That is the reason for the letter.

He subsequently thought that it would be desirable to send copies to Chairmen Wagner and Steagall of the Senate and House Banking and Currency Committees, respectively, so that it could be used by those Committees in connection with consideration of the extension. As that would be equivalent to making it public and he desired to have it made public, I felt that I should make some changes in the original draft of the letter as I had first written it for him to use when he talked to the President. I have accordingly withdrawn the letter in the form in which he showed it to you and have given him the revised draft as enclosed. Inasmuch as he is going to see the President in the morning and at your suggestion, I have asked McDonald to hold up public release of the letter as well as the sending of copies to Wagner and Steagall until after his conference with the President.

The above is by way of explaining to you how the letter came to be written in the first place and then revised in its present form.

Sincerely yours,

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

enclosure

copies to
Mr. Beal
Mr. Lyell
1-18-

January 13, 1957.

Dear Mr. McDonald:

Because I regard the continuance of the guaranty in Title II of the Housing Act as one of the most important measures toward averting the dangers of an acute housing shortage and consequent real-estate inflation within the next few years, I am writing to urge you to take whatever steps you appropriately can to obtain early action by Congress that would relieve mortgage-lending institutions of their present uncertainty as to whether the guaranty will be continued.

My own interest in the question is twofold. In the first place, as the Treasury representative on the President's Committee on Housing in 1954, I had an active part in developing the mortgage-financing provisions of the Housing Act. In the second place, the very nature of my present position requires me to be concerned with mortgage credit no less than with other forms of credit, and with any situation that threatens, as an acute housing shortage would, serious repercussions and dislocations throughout the social and economic structure.

My reasons for attaching great importance to the continuance of the guaranty and the further encouragement of insured-mortgage financing under the provisions of the Housing Act are, briefly, as follows:

1. However ample the insurance reserves of the Mutual Mortgage Insurance Fund may prove to be at some later date, the Act has been in operation for far too short a time for the guaranty to be dispensed with as early as July 1 next, which is the limitation now prescribed in the statute.
2. The Housing Act and the State enabling acts supplementary thereto constitute the only means by which all the important groups of mortgage-lending institutions can make loans up to 80 per cent of the property value and with an amortization period up to 20 years. Except as to loans made pursuant to this legislation, the only institutions which in general are authorized by State or Federal law to make long-term real-estate loans for a relatively high percentage of the property value are the building and loan associations.

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3. In the absence of authority granted by the Housing Act and related State laws, the lending powers of the commercial banks and trust companies, the mutual savings banks, and the life insurance companies with respect to first mortgages on real estate would be greatly restricted. Since these three groups hold, however, the great bulk of institutional funds now on hand and legally available for mortgage lending, they can become, in common with the building and loan associations, increasingly important factors in remedying the housing situation by continuing and enlarging their activities under the Housing Act.

4. Failure to encourage a wider use of the system of mortgage financing provided for in the Housing Act would invite, during a period of increased building activity, a return to practices that the Housing Act was especially designed to overcome—namely, the making of a 50 or 60 per cent short-term first mortgage (the misnamed "renewal" mortgage), followed by a second mortgage and frequently by still further liens. This unrealistic and hazardous method of financing involves enormous costs that at the outset are often concealed in an unduly high price paid for the mortgaged property.

5. The uniformity of lending powers under the Housing Act, and the safeguards afforded all institutions exercising those powers, puts the several important groups of mortgage-lending institutions on an equal basis that does not otherwise exist, increases their effectiveness in dealing with the housing emergency, and at the same time protects borrowers against exorbitant and hidden charges for mortgage loans.

It is my considered judgment that, until a sufficient volume of housing has been constructed to meet the existing shortage and the additional demand resulting from population growth and business recovery—that is, until the threat of an acute shortage within the next few years has been removed—the guaranty now provided in Title II of the Housing Act should be continued as a matter of prudent and practical governmental policy. Furthermore, since the guaranty as it now stands is applicable only in the case of houses completed prior to July 1 next, prompt action to continue it is imperative if Title II loans for new construction are not soon to be abruptly curtailed.

I think it would also be helpful to the housing situation at this time if the service charge of 1/2 of 1 per cent per annum, which lending institutions are permitted to make on

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Title II loans in addition to the 5 per cent interest charge, were eliminated. The interest rate of 5 per cent, as a maximum, seems to me to be fair to borrower and lender alike for this type of loan; but in view of the substantial progress which you have made under Title II during the past year, as well as in view of the rates currently prevailing on investments generally and on mortgages which do not have the protection afforded by the Housing Act, I believe that an ample supply of funds would now be forthcoming for Title II loans without the additional inducement of the service charge.

With kindest regards, I am

Sincerely yours,

M. S. Eccles,
Chairman.

Honorable Stewart McDonald, Administrator,
Federal Housing Administration,
Washington, D. C.

JMD:b


January 13, 1937

At the request of the Secretary I 'phoned to John H. Fahey to inform him of the fact that Mr. Stewart McDonald is submitting through the budget a recommendation for legislation that the Government guarantee of debentures issued under Title II of the Federal Housing Act be extended until June 30, 1939 and that Mr. Morgenthau has withdrawn his objection and that if Mr. Fahey wants to protest to the Bureau of the Budget he should do so promptly.

Mr. Fahey said that it had been agreed at the last meeting of the heads of the lending agencies that the HOLC and the FHA would get together and determine a program and that, moreover, the President was desirous of having a committee agree upon a program to be submitted to him.

The present action, in Mr. Fahey's view, is a departure from that agreement and he objects to it. He also thinks that it is a mistake to extend the guarantee. He said that he would have Mr. Webb and Mr. Russell get in touch with Mr. Bell.

Mr. Bell has been informed as to this.

Upm.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

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~~MM~~
DATE JAN 12 1937

TO Secretary Morgenthau
FROM Herman Oliphant

A conference was held at the Treasury on January 11, to discuss the matter of the letter to the Banque Nationale Suisse about which I gave you a memorandum on December 30. There were present Messrs. Sproule and Knoke of the Federal Reserve Bank of New York, and Mr. Lochhead, as well as Oppen and myself.

It developed at that conference that the incident in question was due largely to the failure on both sides to take into consideration the situation at the other end; and it was generally agreed that had both the Federal Reserve Bank and the Treasury representatives acted differently, the situation would not have arisen. I have every hope that the conference will prove valuable in improving the cooperation between the two institutions.

It also developed that, contrary to our previous understanding, the letter to the Swiss Bank had never been mailed. Some discussion on the subject of the correctness of the Federal Reserve Bank's proposed reply indicated that there was a difference of opinion as to whether their letter could definitely be termed incorrect, but as a practical matter it was agreed that the letter would be redrafted and forwarded in redrafted form to the Federal Reserve Bank for their consideration as soon as possible, and for transmission to the Swiss Bank when its form has been agreed on. For your information, our draft was communicated to them the first thing on the morning of January 12.

I believe you can now consider this incident closed.

Herman Oliphant

TREASURY DEPARTMENT

358

INTER OFFICE COMMUNICATION

DATE December 30, 1936

TO Secretary Morgenthau
FROM Herman Oliphant

CHRONOLOGY OF EVENTS CONNECTED WITH
INQUIRIES MADE BY BANQUE NATIONALE
SUISSE OF FR BANK OF NEW YORK.

1936

- September 15 Swiss bank writes FR bank making certain inquiries as to permissible dealings in gold.
- September 25 Letter received by FR bank.
(approx.)
- October 13 FR bank cables acknowledgment indicating reply will be delayed.
- December 14 Treasury receives excerpt from FR bank's proposed reply, with request that we inform FR bank whether proposed reply is correct.
- December 21 Legal Division, having difficulty in checking reply, requests Lochhead to ask FR bank for text of Swiss inquiries.
- December 22 Lochhead telephones FR bank asking for text of inquiries.
- December 28 Knoke, of FR bank, telephones Lochhead refusing to forward inquiries.
- December 28 (Same day.) FR bank sends reply to Swiss bank's inquiries without clearing with the Treasury, although knowing the Treasury had requested the text in order to be in a position to reply to the FR bank's request for approval.
- December 29 Lochhead informs FR bank that we insist upon receiving text of Swiss inquiries, as you suggested in conference with him and Oppenheimer.
- December 30 Treasury receives text of Swiss bank's inquiries from FR bank, accompanied by the FR bank's December 28 letter, this being the first intimation to the Treasury that FR bank had replied.

It appears, particularly in the light of the text of the Swiss inquiry, that in several significant respects the FR bank's reply is incorrect or unauthorized, and conceivably may mislead the Swiss Central Bank as to the Treasury's policy or, worse yet, bind the Treasury to a policy to which it has not consented.

Obviously, this matter is of such importance that I do not want to proceed further without specific instructions from you.

Herman Oliphant

Sen. James Byrnes

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January 13, 1937.
10:11 a.m.

H.M.Jr: Hello

Operator: Senator Byrns.

H.M.Jr. Thank you. Hello

Byrns: Hello

H.M.Jr: Hello - Jimmy Byrns.

B: Yes sir, how are you, Henry?

H.M.Jr: Fine. How are you?

B: Fine. Now you're calling me because I telephoned you yesterday afternoon, aren't you?

H.M.Jr: That's right.

B: Well I called you because I had just read that Brownlow report.

H.M.Jr: Oh yes.

B: And you are charged or credited as the case might be or as the individual case might be with adjusting or abolishing the General Accounting Office and I'm so heartily in favor of it that I wanted to find out whether the statement was correct.

H.M.Jr: That I'm to blame or to get the credit?

B: Yes (hearty laughter)

H.M.Jr: No - no.

B: No?

H.M.Jr: No - I've really had nothing to do with it.

B: Well that...

H.M.Jr: I can't take either the blame or the credit. I - I - I'm so used to getting the blame that I'll have to take it but no I don't deserve the credit or the blame.

B: I wanted to give you the credit for that.

H.M.Jr: No, I'm sorry.

B: I thought that you were and did you....

H.M.Jr: No.

B: Well I was going to talk with you because I'm one of the few fellows up here....

H.M.Jr: Well we're very much interested but we - I'm - I very carefully kept out of the whole thing.

B: You have.

H.M.Jr: Very carefully.

B: I think that the thing should have been done long ago and it's duplication of legal work and extraordinary power is given to a fellow who has no officials who agree with his attitude at all-it's - I just didn't know that the President was going to approve abolishing it but I'm so much in favor of it that I just wanted to find out who is in favor of it and I want to get together with them.

H.M.Jr: Well this - well what we did do for the Brownlow Committee - we did loan them two of our people, who were experts on this thing, to work with them and maybe that's where the idea came from.

B: That's most likely. Who did you lend?

H.M.Jr: Well we loaned them - ah - ah - ah McReynolds and ah - ah - a lawyer by the name of Hester.

B: Hester.

H.M.Jr: Yes.

B: That's about where it came from.

H.M.Jr: And those two people - we just detached them and I told them that when they left here to work for them they were working for the President and that they would be detached on that and they should work for the Committee - they're working for the President of the United States.

B: Right.

H.M.Jr: But they did work on that phase of it.

B: Well I think the thing ought to be in the Treasury. I think you're right on that.

H.M.Jr: But it was McReynolds and Hester who were loaned to the Committee..

B: Yes.

H.M.Jr:and they did that - they worked on that particular part.

B: Yes.

H.M.Jr: And maybe that's the way.....

B: That's about how it got there, yes.

H.M.Jr: But that's - I mean I don't know whether it is a secret or not but - but they made that particular study because they were familiar with it.

B: Well that's where it came from.

H.M.Jr: What?

B: I know that there'll be lots of opposition.....

H.M.Jr: Yes.

B:to recommendations up here but I.....

H.M.Jr: But if you want any special information.....

B: Yes, I want the information - I want information showing the duplications of activities and business - I remember being told once ~~there~~ that the purchase of land - in the Agricultural Department they first have an investigation of a lawyer in the field and then the Solicitor's office in the Agricultural Department pass upon the titles of the land.

H.M.Jr: Yes.

B: Then when they get through they next go to the Department of Justice. The Department of Justice next passes upon it...

H.M.Jr: That's right.

- B:and it goes to the Treasury where it's approved. Then, if the Treasury approves, they have to send it over to General Accounting and General Accounting refuses to accept the legal purchases of the Department of Justice or the Solicitor of the Department of Agriculture but insist upon the investigation of title by lawyers in General Accounting....
- H.M.Jr: That's alright.....
- B: It isn't a damn bit excusable - the duplication....
- H.M.Jr: I happen to know about it and I think that's just what does happen.
- B: Well that's outrageous - upon a mere statement.
- H.M.Jr: Well the two men down here that know the most about it are Bell and McReynolds.
- B: All right.
- H.M.Jr: And both of them are available anytime you want them.
- B: Fine, I'll get hold of them when this thing gets in.
- H.M.Jr: Both - both - either Bell or McReynolds are entirely familiar with it.
- B: Alright, Henry, how are you getting on?
- H.M.Jr: I think all right - how do you think?
- B: Fine - fine.
- H.M.Jr: (Laughs) All right.
- B: Well you know whenever you don't know that you've got any particular part in your anatomy you must be all right and we don't hear a damn thing about you so the Treasury must be all right.
- H.M.Jr: Well I - I - no news is always good news.
- B: Yes (hearty laughter) Goodbye.
- H.M.Jr: Thank you, goodbye.

January 13, 1937.
10.35 a.m.

H.M.Jr: Hello.

Good morning Mr. Secretary, how are you?

H.M.Jr: How is Stewart MacDonald?

MacD: Well I've had a bad case of flu. This is my first day back at the office.

H.M.Jr: Oh for heaven's sake.

MacD: And I understand Wayne Taylor is in the same fix.

H.M.Jr: That's right.

MacD: But in the meantime something has to be handled pretty promptly and I was wondering if you wouldn't let me come over and see you in reference to present our point of view on the extension of this government guaranty on the debentures under Title 2.

H.M.Jr: Well Dan Bell talked about that yesterday.

MacD: Yes, I know he did.

H.M.Jr: I'd like to wait until Wayne is back on it because he's been sort of handling it.

MacD: Well the only thing was this - that I have to go to see the President tomorrow on it. I've been to see the President once before and he told me what he wanted to do which was this; prepare a - just a short message on it and he would have it done by joint resolution....

H.M.Jr: Yes.

MacD:and I spoke to some of the members of the committee - ah Senate Committee and they wanted to tack it on to this RFC bill which is being - which they're having in conference to-day.

H.M.Jr: Yes.

MacD: Now the point was that if we could do it, Mr. Secretary, it has to be done immediately for the reason that - ah - in the latter part of this month there will be in attendance here a big conclave of

anti-lobbyists who will use all efforts they can to lobby against it, principally people in the old mortgage company who are hanging out for the old regime and the old high interest rates and commissions and everything else and we're afraid if we don't get the thing out of the way before they come along why - ah - they'll probably stymie it for a long time and already we're beginning to have a hold-up in building construction on account of it. Now you could readily understand if you were going to buy a 40-acre addition to a prominent city in the United States and lay it out with streets and sewers and sidewalks and waterworks and everything like that and schools and whatnot which a great - great many of our people have that you wouldn't want to go ahead and buy that lot and do all that work unless you knew that by next July you'd still have the Federal Housing facilities available to you. So already we're beginning to get notices from banks that they're not going to make any further building construction loans until this matter is cleared up and I would certainly appreciate it if you could see your way set to let my attorney and myself come over there and see you for a few minutes on it.

H.M.Jr: Well supposing you come at 11:45.

MacD: I appreciate that very much.

H.M.Jr: O.K.

MacD: Thank you.

January 13, 1937
11:40 A.M.

H.M.Jr: Hello?

Carter
Glass: Mr. Secretary?

H.M.Jr: Yes, sir.

G: Recalling that you suggested to me yesterday that these bills of O'Connor relating to the examination of trust companies here in the District and credit unions -

H.M.Jr: Yes.

G: - go to the District Committee, they don't go to the District Committee.

H.M.Jr: Oh, don't they?

G: No, they were referred to the District Committee last year and Senator Fletcher had them re-referred to the Banking and Currency Committee.

H.M.Jr: Well, I didn't -

G: They're purely banking matters.

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

G: They're purely banking matters, and they ought to come to the Banking and Currency Committee.

H.M.Jr: Well, I just took O'Connor's word for it, and I -

G: Well, he don't know what he's talking about.

H.M.Jr: Well, of course -

G: That isn't strange. There are plenty of people that don't know what they're talking about. I'm among the number.

H.M.Jr: Well - ah -

G: But I know what I'm talking about now.

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H.M.Jr: Well, I know you do, but I just - ah -

G: Well, I'll call O'Connor and tell him about it.

H.M.Jr: Ah -

G: They - they were referred to the District Committee last year and Mr. - Senator Fletcher had them re-referred to the Banking and Currency Committee.

H.M.Jr: Well -

G: They're banking matters, you know.

H.M.Jr: Yes. Should you - do you want me to tell him that?

G: No, I'll tell him.

H.M.Jr: You'll tell him.

G: Yes, or you can tell him either. It doesn't make any difference.

H.M.Jr: No, it's - I'll do whatever you - it's - it's up to you, so I'd much rather you -

G: Well, I - I've got to call him anyhow, so I'll tell him.

H.M.Jr: All right. Now, may I ask how our bills fared this morning?

G: Well, they were - they will be referred to the Sub-Committee -

H.M.Jr: Yes

G: - that has banking legislation in charge, as soon as a Sub-Committee is appointed, and I'm going to suggest to Senator Wagner to appoint a Sub-Committee right away so that we can dispose of the bills on Tuesday of next week.

H.M.Jr: Oh, I was under the impression - I think your Clerk told somebody down here that you were going to meet at 10:30 this morning.

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G: Well, we did.

H.M.Jr: Oh.

G: We did, and reported the R.F.C. bill, because there was no objection to it at all.

H.M.Jr: Oh.

G: The other - all other bills were referred to this Sub-Committee when appointed.

H.M.Jr: Oh.

G: And Wagner, you know, is ill.

H.M.Jr: I see.

G: And he asked me to act for him.

H.M.Jr: I see.

G: And I'm going to try to get in communication with him today -

H.M.Jr: I see.

G: - and have the Sub-Committee appointed right away -

H.M.Jr: Ah-ha.

G: - and turn the bills over to them.

H.M.Jr: Oh.

G: So that I hope to be able to report on Tuesday of next week.

H.M.Jr: Report them out, you mean?

G: Yes. I hope so.

H.M.Jr: On next Tuesday?

G: Yes.

H.M.Jr: Well, that'll be fine.

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G: I - I think perhaps it would be well for you to come up and you could help us explain the bills.

H.M.Jr: I'll be very glad to.

G: Huh?

H.M.Jr: I'll be very glad to.

G: Very well. I'll let you know, Mr. Secretary.

H.M.Jr: I'll be very glad to.

G: You needn't entertain any apprehensions about it. They're going to be passed, I think.

H.M.Jr: You - I - I needn't worry about it?

G: I don't think so.

H.M.Jr: Ah-ha. No, if - if you'll indicate to me that you'd like to have me come up there, why, I'll be delighted.

G: All right, I'll - I'll communicate with you.

H.M.Jr: Thank you.

G: Goodbye.

H.M.Jr: Goodbye.

January 13, 1937
11:54 A.M.

Operator: Go ahead.

Burgess: Hello.

H.M.Jr: Hello, Burgess.

B: Oh, hello, sir. Well, I just wanted to tell you how things are going.

H.M.Jr: Please.

B: They opened up - well, yesterday, you know, we bought a million and a half.

H.M.Jr: Yes

B: They were a little weakish.

H.M.Jr: Yes

B: Now, today I tried stiffening up the orders a little bit because I thought they had gone far enough so we could afford to buy a little more, and it - it went off three or four or five thirty-seconds. We bought about a million three, and now it seems to have primed up a bit.

H.M.Jr: I see.

B: There's some other bids coming in, above ours.

H.M.Jr: I see.

B: So I think this - this decline for the moment is - is steadied off.

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

B: If there'll be anything very exciting, I'll let you know -

H.M.Jr: Please.

B: - but you really don't need to worry about it, I think.

H.M.Jr: Thank you.

B: Very good.

H.M.Jr: Goodbye.



THE COMPTROLLER OF THE CURRENCY

WASHINGTON

January 14, 1937.

Dear Henry:

Thanks for your telephone call yesterday. Senator Glass called me and told me of his conversation with you, which was the same as you stated.

The Senator said that the credit union bill had gone to the District of Columbia committee in the Senate in the last session of Congress but that he got the Senate to re-refer it out of that committee and put it in the banking committee where he believed it belonged. I called his attention to the fact that in the House the bill had gone to the District of Columbia committee and there was no objection on the part of the banking and currency committee of the House and that the bill was unanimously reported out for passage and would have been passed by the House except for a slip on the calendar.

I told the Senator that it was not our position, and I am sure you are of the same opinion, that we should in any way suggest to either the Senate or the House to what committees legislation should be referred as that was a matter entirely for the Senate and the House, but that I merely stated the facts to the Secretary when the two bills were under discussion.

The Senator seemed quite pleased, particularly when I told him that when the legislation was ready to be introduced I would go up and discuss it personally with him. He did not indicate any objection to either bill, in fact he enthusiastically approved the credit union bill last year. He seemed very much pleased that there was little possibility of other banking legislation being recommended by the Treasury and emphatically expressed himself as opposed to other legislation. He did this voluntarily.

Cordially yours,

J. F. T. O'Connor
J. F. T. O'CONNOR
Comptroller

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury

C. J. ...
1-15-37

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 14, 1937.

TO Miss Chauncey

FROM Mr. White *HPW.*

Subject: Conference with Mr. Keeler of the Department of Agriculture with respect to draft of Secretary Wallace's paper on "America's creditor position".

1. On December 29, 1936, the Secretary asked me to examine the draft of a paper prepared by Secretary Wallace for the "London Telegraph" on the creditor position of the United States, and to report any suggestions or criticisms on the monetary phases of the paper to the Secretary.

2. An examination revealed some doubtful interpretation of data and some statistical errors. I so reported to Secretary Morgenthau, who suggested that Secretary Wallace might like to have Mr. Ezekiel go over the paper with me. The Secretary telephoned Secretary Wallace and the latter stated that Mr. Ezekiel was out of town but would be glad to have Mr. Wheeler go over the material with me.

3. In the late afternoon Mr. Christy, of the Department of Agriculture, informed me that Mr. Wheeler was out of town and the Secretary had asked him to discuss the draft with me but that he would be unable to do so and was asking Mr. Keeler, of the Department of Agriculture, to see me about it. Mr. Keeler subsequently came to my office and we discussed suggestions for changes in the analysis. Mr. Keeler stated that he concurred with my criticisms and suggestions and would so advise Mr. Christy who, in turn, would take the matter up with Secretary Wallace.

I reported to Secretary Morgenthau the gist of the conversation I had with Mr. Keeler.

Memo from Miss Lonigan reporting 372
an error in information furnished HM, Jr.

Would prefer to explain in person.

TREASURY DEPARTMENT

373

INTER OFFICE COMMUNICATION

DATE January 14, 1937

to The Secretary
FROM Miss Lonigan

I have to report an error in the information I gave you about the map on Federal expenditures in the drought area.

The conclusion was correct that some families were receiving over \$200 in one month. The statement was also correct that the map showed areas of excessively high payments from Federal programs. My error was in combining into one, two separate parts of the study of drought areas. One of them gave figures for relief families only, the other gave averages based on the total population only.

The map referred to the study of payments made in three years, 1933-1936. The black counties were those in which payments averaged \$175 per inhabitant or about \$675 per family of the general population. It is not possible to tell what was the average for families receiving aid, nor what were the highest payments made to such families. There is no doubt, however, that it was extremely high. The figures do not include PWA or CCC.

There is also a current study of funds received by relief families from one or more programs since July 1936. It is not yet complete. They have schedules of families receiving \$200 or more, in July or August, which I saw. Expenditures rose rapidly after August, so that duplications should have increased rather than decreased. This study excludes AAA and soil conservation payments, and Resettlement grants.

While describing the current study to me, the WPA demonstrated it with the map that I gave you. I confused them in my mind. However, there is no justification for my confusing them. The conclusions stand, but the evidence for them is much less direct than I had hoped.

The current study of relief families will be much more complete in about three weeks. It may furnish the evidence we want at that time.

Mr. Bell can do nothing now to draw out these current figures any earlier than that. I am to let him know as soon as they are about complete.

MAA
374

Minutes of Meeting held at the White House, January 14, 1937

Present: The President
Secretary of the Treasury Morgenthau
Carroll Miller, Chairman, Interstate Commerce Commission
Herman Oliphant, General Counsel, Treasury Department
George C. Haas, Director of Research and Statistics,
Treasury Department

The President read the letter which Secretary Morgenthau had written him regarding a statement in the Interstate Commerce Commission's 1936 Annual Report concerning the effects of the operation of the undistributed profits tax particularly with regard to weak railroads.

Following the reading of the letter the President began the discussion by calling attention to the importance of coordinated action among the Departments and agencies in the executive branch of the Government. He explained that he had set up the National Emergency Council and had met with its members each week for two years for the purpose of bringing about better coordination. He pointed out that when these meetings were abandoned, the Director of the Budget issued a mimeographed letter to all Departments and agencies asking that certain matters be cleared through the National Emergency Council. At that time Mr. Eastman, who was then Chairman of the Interstate Commerce Commission, objected to this procedure. The President said he called Mr. Eastman into conference and outlined to him the purpose of the request. The President also said that at this conference he had agreed to certain exceptions in certain matters.

The President then called attention to the new plan for reorganization of the executive governmental activities and said this would in no way interfere with the judicial functions exercised by the independent agencies.

The President explained further, in regard to the matter of the undistributed profits tax and the statement contained in the Interstate Commerce Commission's Report, that in view of the Treasury Department's connection with fiscal affairs, the Interstate Commerce Commission should have consulted with it in this matter.

The Secretary stated that newspaper correspondents and others who are strongly opposed to the undistributed profits tax are quick in picking up adverse criticism of this sort in an attempt to create an issue, in which statement the President concurred.

Mr. Miller said he had no alibi to offer, that the Treasury should, no doubt, have been consulted. He said he was not particularly familiar with affairs relating to finance, as that part of the work was handled by another division of the Interstate Commerce Commission, but that he would investigate this particular statement in the annual report, and also the exceptions in the matters to be cleared through the National Emergency Council to which the President agreed in his conference with Mr. Eastman.

The President asked Mr. Miller to explain to the Commission that the proposed governmental reorganization plan did not contemplate the abolishment of the Interstate Commerce Commission. The President mentioned the Food and Drug Administration in the Department of Agriculture, which for years has been operating under the Secretary of Agriculture, and called particular attention to the fact that this body had judicial functions similar to those of the Interstate Commerce Commission; that their functions were not interfered with by the Secretary of Agriculture, and that this agency, under its Cabinet officer, was functioning very satisfactorily.

Secretary Morgenthau asked the President what he thought could be done to correct the impression which was created by the statement in the Interstate Commerce Commission's Report. The President suggested that the press might be informed that there was to be a conference between the Interstate Commerce Commission tax experts and Treasury tax experts. Mr. Oliphant said we must guard carefully against giving the impression that this whole tax matter is to be reopened; that the Act was again to be discussed on its merits. The President and Secretary Morgenthau agreed that this impression should not be given to the newspapers.

Mr. Miller said he had questioned the statement regarding the undistributed profits tax when the annual report was being discussed, but that inasmuch as it was not in his particular division, he had not pressed the matter. Mr. Miller further pointed out that the Interstate Commerce Commission had the mandate of Congress to consider the welfare of the railroads and keep them out of receivership if possible, although personally he felt that the general railway situation over a period of time might well be benefitted if some of the weaker roads did go through receivership reorganization.

The President said to Mr. Miller that he must realize it was impossible to have two classes of taxes for the railroads, one for the weaker and one for the stronger railroads.

On leaving, Secretary Morgenthau suggested that in meeting the newspapermen Mr. Miller do the talking.

(The group then left the President and on leaving the Executive Office was met by the newspapermen.)

Mr. Miller told the newspapermen that the meeting was called to discuss the statement in the 1936 Annual Report of the Interstate Commerce Commission regarding the undistributed profits tax in relation to railroads, which was not shown to the Treasury before it was issued, and that no conference had been held with Treasury officials before the report was issued. He further indicated that the Interstate Commerce Commission experts were to meet with Treasury officials on this matter. He repeated that the Treasury had not seen the report before it was issued. One of the correspondents asked the Secretary about the outcome of the proposed conference. The Secretary said he thought if they got together that the

- 3 -

Commission would find it had nothing to worry about. Fearing that this would be taken by the correspondents to mean that the Treasury would accede to the Commission's position, the Secretary went back into the correspondents' room and corrected any possible misunderstanding. One of the press correspondents there called Secretary Morgenthau's attention to the statement in the President's Budget Message to the effect that there would be no tax bill this year except to renew expiring taxes, and asked if the proposed conference would change that situation, to which query Secretary Morgenthau answered "no."

D. Haas

January 14, 1937

Mr. Oliphant told the Secretary today that in connection with the miscellaneous paintings which Mr. Mellon is donating, he, Oliphant, is going to say to Ned Bruce that "I talked the matter over with the Secretary and he said that since you are handling the matter directly with the President that neither of us has any suggestions to make."

Telephone conversation between Ned Bruce and Mr. Oliphant Jan. 14, 1937.
(Transcribed by V.O'Neale)

Oliphant - Hello, Bruce?

Bruce - Yes. Hello. How are you?

Oliphant - Fine. That was a fine ride we had yesterday.

Bruce - Did you hear that one about why Tugwell left the Government to join a molasses company? They say it was due to the fact that he preferred "taffy" to "epitaph".

Oliphant - I spoke to Henry about the other thing. He told me to say this to you: Since you were handling the matter directly with the President, neither of us would have any suggestions to make.

Bruce - Well, Herman, I was thinking I might take it up with David Bruce.

Oliphant - All I can say, Ned, is that since you are handling it directly with the President, neither of us would have any suggestions to make about any phase of the matter.

Bruce - Should I talk to Bob Jackson about it?

Oliphant - I can only say what I have already said, old man. I wouldn't have any suggestions to make.

Bruce - All right, Herman.

Oliphant - Let's get together again sometime soon.

Bruce - Fine. Thanks for calling.

HO
1/14/37

January 14, 1937

The Secretary talked on the telephone to Cochran in Paris last night and told him to sail for the United States on Saturday. The Secretary also spoke to Judge Moore and asked him to send Cochran a cable confirming these orders.

January 14, 1937
10:50 A.M.

H.M.Jr: Hello?

Operator: Senator Glass hasn't reached his office yet.

H.M.Jr: Oh. All right, never mind. See whether Mr. Eccles is at his office.

Operator: All right. You don't want to talk to Senator Glass?

H.M.Jr: Well, yes, I do between now and the next fifteen minutes.

Operator: All right.

H.M.Jr: But not after five minutes past eleven.

Operator: I see.

H.M.Jr: Because I've got to go to the White House at a quarter after.

Operator: All right.

H.M.Jr: Ask Upham to come in and get me Marriner Eccles on the wire.

Operator: All right.

H.M.Jr: Please.

(Pause)

H.M.Jr: Hello?

Operator: Operator.

H.M.Jr: What about.....

Operator: He's at the hotel. I'll have to get him there.

H.M.Jr: Thank you. Hello?

Operator: Chairman Eccles.

H.M.Jr: Thank you.

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Operator: Go ahead.

Eccles: Hello?

H.M.Jr: Hello?

E: Hello.

H.M.Jr: Marriner.

E: Good morning.

H.M.Jr: Good morning. How are you?

E: Fine. How are you this morning?

H.M.Jr: Oh, pretty well. Not taking on any unnecessary fights. I got your letter last night in regard to that Federal Housing -

E: Yes

H.M.Jr: - and I appreciate your writing me. I wanted to tell you - Stewart McDonald, when he spoke to me about this, after - he showed it to me after we'd decided that we'd go along with him, see? -

E: Yes

H.M.Jr: - just as he was getting up to leave. But he didn't tell me that he'd asked you to write him such a letter.

E: Well, what he wanted me to do was to go up to the White House.

H.M.Jr: Yes

E: You see?

H.M.Jr: Yes

E: He'd been pressing me pretty hard to go over there with him -

H.M.Jr: Yes

E: - because of my interest in the thing, and I told him

- 3 -

that I would.

H.M.Jr: Yes

E: And then as I got to thinking the matter over -

H.M.Jr: Yes

E: - I told him that I couldn't see how I could possibly do that; that would involve me and we'd - in the discussion of the thing, whether he - whether he asked me as a substitute, or whether I said that I couldn't possibly go to the White House but I might get him a memorandum.

H.M.Jr: Well, what, you see, he told us was that, as I got it - at least I got this impression yesterday - was that they were going to give out your statement or you were going to give it out, -

E: Yes

H.M.Jr: - in advance of his seeing the President.

E: Well, of course, I didn't know yesterday that he was going to see the President at all.

H.M.Jr: And you can see from the White House standpoint that that wouldn't look so good, or from yours either.

E: Yes

H.M.Jr: Or for McDonald.

E: Yes

H.M.Jr: And my whole point was that McDonald should see the President, let the President make up his own mind first.

E: Yes. Well -

H.M.Jr: Which I think -

E: I - tne - the whole thing, of course - nothing was given out -

H.M.Jr: No

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- E: - and the whole thing came about more or less not through my initiative at all.
- H.M.Jr: So I gathered.
- E: And - and of course I was interested in - in the thing just as I state - the letter states very frankly my view.
- H.M.Jr: Sure. Well now -
- E: And if he - if he would give that - he could use that with the President.
- H.M.Jr: Well, there's nothing to worry about. I mean it's the first time he asked to
- E: I know, but there's a question in my mind now whether I should give it out at all even though he sees the President.
- H.M.Jr: Do you want my advice?
- E: Yes
- H.M.Jr: I wouldn't do it.
- E: Well, it - I think maybe that's good advice. But at least, my thought was that if he'd see the President, he uses the memorandum, and he uses the memorandum on the Hill, the darn thing gets out anyway.
- H.M.Jr: It's all settled anyway, because Bell was over there yesterday after this meeting, told them over there that Fahey was opposed to it - this is confidential -
- E: Yes
- H.M.Jr: Jimmy Roosevelt went in to see the President and told him that Fahey was opposed to it, and the President said, "Forget it. Let Fahey come over and talk about it, but," he said, "we're going to go through with it."
- E: Yes. Well, then - then - then if the President feels that way about it.... Of course, I thought the President might take this position on it, as he sometimes

- 5 -

does: "Well now, you go ahead and do what you can on it. I won't...."

H.M.Jr: Well, he simply...

E: "If you can get it through, it's all right with me."

H.M.Jr: Well, I don't know about that, but I know it's cleared through the Budget, and I told McDonald that he could tell the President that I'm for it.

E: Well, that'll help a lot.

H.M.Jr: And -

E: Well now, my thought was that if the President just simply says, "Well now, McDonald, it's all right with me; you do the best you can," and he himself, of course, takes no part in it or says nothing and it's up to Stewart to fight it through....

H.M.Jr: I don't think you'll find it that way.

E: Well, if it was, then I'd be willing to help Stewart out.

H.M.Jr: That's something different.

E: See? That was my thought, because Fahey and that crowd of Building and Loan people who are associated with him is going to - they would try to - they'd try to upset it.

H.M.Jr: Yes, but if McDonald sees the President this morning and the President says, "I'm going to support you," that's all.

E: Well, if he says - if he says that, then of course it's over with.

H.M.Jr: That's right.

E: Then there's no need of doing anything about it.

H.M.Jr: Yes. But if this letter would come out in advance, it'd look badly for everybody.

- 6 -

E: Well, of course, when I talked to McDonald about the thing, he didn't know that he was going to see the President.

H.M.Jr: Oh.

E: Didn't know when he was going to be able to see him at all, and he was getting a lot of pressure from - from these Building and Loan people, and so forth.

H.M.Jr: I think you'll find that by this afternoon McDonald will be in the clear.

E: Well, I've told McDonald to not release that letter at all, to use it with the President, but to - not to release it until he takes the matter up with me again, after he sees the President.

H.M.Jr: O.K.

E: So that's the way it sets now, and - and I don't think there'll be any release to it, unless something - unless there's - the situation changes.

H.M.Jr: Well, I appreciate your writing me anyway.

E: Well, thanks for calling.

H.M.Jr: Goodbye.

E: Goodbye.

January 14, 1937
2:08 P.M.

Carter
Glass: Hello?

H.M.Jr: Henry Morgenthau, Jr.

G: Senator Glass.

H.M.Jr: How are you, sir?

G: How are you?

H.M.Jr: I'm pretty well. Senator, I read in the paper one of them stories that there was some one Senator up on your Committee that might be opposed to the extension of our fund, and I wanted to ask your advice whether you thought it would be any use my talking to him or should I wait until next Tuesday.

G: Well, I want to try and get the thing through before next Tuesday.

H.M.Jr: Pardon me?

G: I want to try and get the thing through before next Tuesday.

H.M.Jr: I see.

G: There is one or more - one or more of the Senators who want to have public hearings on the thing.

H.M.Jr: I see.

G: I don't see any necessity of it myself, but if I could call the Committee -

H.M.Jr: Yes

G: - tomorrow or Monday, I'd like to have you come up.

H.M.Jr: Well, I'm at your service. As - as I understand it, I was to appear in the House this morning at 10:30 before Ways - Ways - the Coinage Committee.

G: Yes

- 2 -

H.M.Jr: But they couldn't get their Republican members.

G: Yes

H.M.Jr: So they're supposed to put it over till 10:30 tomorrow, -

G: Yes

H.M.Jr: - but I haven't heard from Congressman Somers yet, -

G: Yes

H.M.Jr: - so I'm keeping myself free for him at 10:30 tomorrow.

G: Yes

H.M.Jr: But outside of that, any other engagement I have I'll cancel if you'll let me know.

G: Very well, I'll let you know what I propose to do about it. I have a telegram from Senator Wagner, who is Chairman of the Committee but ill and can't attend to it, authorizing me to go ahead with it, so I'll let you know some time this afternoon or first thing in the morning what we're going to do.

H.M.Jr: If I might take the liberty to say so, I think it'd be unfortunate to have it public.

G: Well, I don't see any necessity of having it public.

H.M.Jr: No. But I'm not going up there to see anybody unless you tell me to do so, see? In other words -

G: Yes, I don't see any necessity of seeing that party.

H.M.Jr: And -

G: But it may be - it may be desirable to have you talk before the Committee in executive session.

H.M.Jr: Well, I - I'm - the way I look at it, you're Chairman and I'm putting myself in your hands.

G: A ll right.

H.M.Jr: And I'll do anything you say, but I'm not lobbying for

- 3 -

the bill. I'm not seeing anybody, see?

G: All right, all right.

H.M.Jr: All right, sir.

G: All right.

H.M.Jr: Thank you.

January 15, 1937
9:14 A.M.

H.M.Jr: Hello?

Mrs. McDaniel (Of Senator Glass's office): Yes, sir.

H.M.Jr: Henry Morgenthau, Jr.

M: Mr. Secretary.

H.M.Jr: Is this Senator Glass's office?

M: Yes, and this is Mrs. McDaniel talking.

H.M.Jr: Miss who?

M: Mrs. McDaniel.

H.M.Jr: Oh, Mrs. McDaniel -

M: Yes

H.M.Jr: - I'm afraid there's a misunderstanding.

M: Yes

H.M.Jr: I spoke to the Senator myself yesterday about two o'clock.

M: Yes, sir.

H.M.Jr: And told him that I was available any time except 10:30 this morning, when I had an appointment to be - appear before the House on Weights, Coinage, you know.

M: Oh, you did?

H.M.Jr: Yes

M: Well -

H.M.Jr: I said I'd cancel.....

M: - it must have escaped him, because I had dinner up there last night.

H.M.Jr: Pardon me?

- 2 -

M: I say it must have escaped him, because I had dinner with him last night at the hotel, and he asked me to phone you the first thing this morning, the minute you got to the office.

H.M.Jr: Well, I told him - I said, "Senator, I'll cancel any appointment I've got but one, and that's the one in the House and they've asked me to come there Friday at 10:30."

M: Well, did you ever... Now, let me get in touch with him and he'll call you, Mr. Secretary.

H.M.Jr: Do you mind? Because I - I - I don't - I couldn't very well call up Congressman Somers and call it off there.

M: I see. Well, I'll - I'll get in touch with him right away and he'll call you.

H.M.Jr: You see, I had the letter yesterday from Somers inviting me to come up there and we accepted.

M: I see.

H.M.Jr: Now, I told Senator Glass any other time except that.

M: And I'll bet it just escaped him entirely.

H.M.Jr: All right.

M: Because that was the last instruction he gave me last night -

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

M: - was to call you the first thing this morning.

H.M.Jr: If I hadn't done it myself, I could blame somebody else, but I can't.

M: (Laughs) But you did it.

H.M.Jr: Yes

M: Well, all right, sir, I'll get in touch with him right away.

H.M.Jr: Thank you.

M: And he'll call you.

January 15, 1937
9:47 A.M.

H.M.Jr: Hello.

Carter
Glass: This is Mr. Glass.

H.M.Jr: This is Henry Morgenthau, Jr.

G: Mr. Secretary.

H.M.Jr: Yes, sir.

G: No use being disturbed about the matter of this meeting. I don't think it will be necessary for you to appear there at all, and if so we can turn the meeting to suit your convenience.

H.M.Jr: Well -

G: I'm in hopes of having -

H.M.Jr: I would say, sir, that I - I - I don't know - I certainly could get there by - the latest, 12 o'clock. Is that too late?

G: Well yes, the Senate meets at 12 o'clock. I don't think it will be necessary for you to be there at all.

H.M.Jr: You think you can report it out without me?

G: I think I can report it out without you being there, but if there are members of the Committee who insist upon the hearing, which I shall insist will be an executive session -

H.M.Jr: Yes

G: - why, we can defer it, that's all.

H.M.Jr: Well, when - when would suit you, then?

G: What's that?

H.M.Jr: What day would suit you?

G: Well, I had contemplated going home this evening. In

- 2 -

fact, I had contemplated going home last night but for this meeting, and I'll be back Monday morning at 10 o'clock.

H.M.Jr: Well, if - if - if they want me, I'm available any time Monday.

G: Very well. If they want you -

H.M.Jr: Yes

G: - the likelihood is we'll want you at 10 o'clock Monday morning.

H.M.Jr: Well, I'll put that down.

G: And I'll let you know. I - I understood you to say that you were expecting to hear further from Somers - Somers.

H.M.Jr: Well then, we - I did and I got a letter yesterday afternoon.

G: Yes, well I didn't know that.

H.M.Jr: Well, I - I didn't know it either, but he asked me to hold 10:30 for today -

G: Yes

H.M.Jr: - pending his Republicans filling their meeting - their Committee.

G: Yes, and I - I - you told me you expected to hear from him and I supposed you'd let me know when you heard from him.

H.M.Jr: Well - well, I didn't - I didn't know that - I was under the impression from some person that if we came up on the Senate, it'd be Tuesday, you see.

G: Yes

H.M.Jr: And so I didn't think there was any hurry, you see.

G: Well, there is no real hurry about ~~it~~ -

H.M.Jr: Yes

- 3 -

G: - because there's not going to - in my judgment, there's going to be no difficulty about it at all.

H.M.Jr: Well -

G: At any rate, I'll communicate with you after the meeting today and let you know exactly what to expect and when to expect it.

H.M.Jr: Well, if - if - I'll be with Somers, because I got his letter; it came in last night.

G: Yes

H.M.Jr: And - ah - at least, it was on my desk the first thing this morning when I walked - when I walked in here. It was dated yesterday, so I suppose it got in last night.

G: Yes

H.M.Jr: And I'll - I'll wait then and keep Monday clear.

G: All right.

H.M.Jr: Thank you.

G: All right. Goodbye.

January 15, 1937
1:58 P.M.

Operator: Can you speak to Mr. Miller now?

H.M.Jr: Yes

Operator: I'll get him.

H.M.Jr: Hello.

Operator: Chairman Miller. Go ahead.

H.M.Jr: Hello.

Carroll
Miller: Hello, Mr. Secretary.

H.M.Jr: Good morning.

M: This - the Commission has appointed Commissioner Eastman to confer with you in regard to this tax matter.

H.M.Jr: Yes

M: And I wonder if you could let us have a copy of your letter to the President.

H.M.Jr: Surely.

M: Shall we send over for it?

H.M.Jr: No, I'll send it. I'll - I'll have a copy made and send it over to you.

M: Well, if you will, please. And then you'll hear from Eastman in a few days, when he's ready.

H.M.Jr: I'll have it over to you within the hour.

M: Is that satisfactory to you?

H.M.Jr: Entirely.

M: All right. Thank you, Mr. Secretary.

H.M.Jr: Thank you.

M: All right.

January 15, 1937
2:05 P.M.

George
Harrison: Henry, I'm in town and I was wondering whether it would be convenient for you to see me any time this afternoon.

H.M.Jr: Well, George, I'm going before the Committee on Banking and Currency at 2:30.

H: Ah-ah.

H.M.Jr: I was up there for two hours solid this morning.

H: Oh, I see.

H.M.Jr: Before the House. This afternoon your friend Carter Glass has me up there.

H: Oh, I see. Well, then I won't bother you. I'll call you in the morning in case - are you going to be there tomorrow morning?

H.M.Jr: Well, I'll be at home.

H: Oh well, I see

H.M.Jr: Have you got my number?

H: North 8988, isn't it?

H.M.Jr: 8898.

H: 8898.

H.M.Jr: Give me a ring around 9 o'clock.

H: May I do that?

H.M.Jr: Are you up at Carey's?

H: Yes

H.M.Jr: O.K.

H: That's 8898.

H.M.Jr: 8898.

H: I'll call you in the morning then.

H.M.Jr: Please.

H: First rate.

January 15, 1937
4:14 P.M.

Senator James F. Byrnes: The best way to do that is when we adjourn there, McNary objecting to filing the report, Joe will move just to meet formally there tomorrow.

H.M.Jr: Yes.

B: And there - instead of going into the - the Senator right now, I thought I'd wait, because the best - the best thing to do would be to let him file the report tomorrow, and then that's all we're going to do, just meet to get this report.

H.M.Jr: So you'll leave it as it is.

B: And then this. Let's - we're going to meet, and when he files it he can ask unanimous consent to take it up. If McNary objects, as I imagine he will - he's taking the position that it ought to follow the rule and stay over, you see.

H.M.Jr: Yes, then it comes up Monday.

B: Then it would fix it - our - we'd accomplish our objective to have the thing on Monday.

H.M.Jr: So you'll leave it as is.

B: And the best thing is to - possibly to let it go through and stir up less trouble than if we go asking exceptions. Of course, there's no reason for the hurry. I think when you're getting Monday, we'd be doing all right.

H.M.Jr: But you - but you're not going to change Class now?

B: No, I think I'm just going in there to - to talk with him to urge to - when the Clerk files it, is going ahead to file the report.

H.M.Jr: Yes

B: Therefore it'd be put on the calendar tomorrow, and if he can ask for its consideration, if McNary chooses to give it, all right, and if he don't, why, then at most we'll be over to Monday.

H.M.Jr: Swell.

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B: That's - that's the best idea.

H.M.Jr: Well, it's darn nice of you to call me up.

B: You made a fine statement this morning.

H.M.Jr: Ah -

B: You made - and I don't hesitate to say that I told Adams you made a darn sight better statement than I've heard you heretofore make before the Committee.

H.M.Jr: Thank you.

B: And - and the - ah -

H.M.Jr: Well, Jimmy, listen, a fellow can make a better statement when you've got three years behind you.

B: Of course.

H.M.Jr: And we've been skating on thin ice the last three years, and when I go up there, I - I haven't had so much to.....

B: Oh well, nobody loves a cross-examination. I never...

H.M.Jr: No, but...

B: I've seen lawyers - I've seen lawyers go on the witness stand and suffer terribly on cross-examination.

H.M.Jr: But it - it gives a fellow a lot of backing to know that - well, hell, you can say, "Look what's happened in the last three years."

B: You made a good statement there on that thing. You got a fine statement.

H.M.Jr: Well....

B: Evidence of - of just- it justifies confidence in the future by what you've done.

H.M.Jr: Thank you.

B: Fine, goodbye.

H.M.Jr: Goodbye.