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- a) Final draft.....
- b) For Russell Leffingwell's congratulations,  
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Stabilization (arranged chronologically)

France:

Cochran reports substance of British correspondence  
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- a) HMJr, from Farm, discusses with FDR; both  
agree to do nothing about this - 2/21/37.....

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Cochran requested by HMJr to cable his suggestions on  
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HMJr asks Knoke to be in his (HMJr's) office tomorrow  
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- a) Bullitt: Fears that despite new moderation in  
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Hitler may be speculating on possible collapse of  
French financial situation and overflow of Blum  
government; this would produce enormous series  
of strikes
- b) Delbos: A possibility, but financial situation  
will not get so far offhand as to lead to overthrow  
of Government; admits unpopularity of Lebeurye  
(Governor, Bank of France) and Auriol (Minister of  
Finance)

- c) Delbos proposes formation of National Economic  
Council to supervise and coordinate work of  
Ministers of Finance, National Economy, Commerce,  
and Agriculture - also some supervision over  
Bank of France; Rist to head Council

Bullitt-Blum (Prime Minister) conversation - 2/25/37.....

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- a) Bullitt suggests time is ripe for France and  
Germany to remove barriers to international  
trade and armament restrictions
- b) Blum does not agree; thinks Hitler is speculating  
on fall of Blum government, with general strike  
following; states emphatically that financial  
situation will not bring about overflow of his Government;  
moreover, if he (Blum) should go into opposition,  
he would make the utmost efforts to prevent serious  
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c) Blum: Most grateful for United States support; asks about possibility of some type of loan in United States; Bullitt replies Johnson Act would exclude any type of loan; Blum inquires about debt settlement and Bullitt says in that case a French loan would present quite a different aspect; Blum does not consider debt settlement impossible		
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a) HMJr tells group that FDR is as pessimistic as he is; FDR suggests that word be sent to Chamberlain very secretly asking if there is anything Chamberlain and HMJr can do together; therefore Sir Ronald Lindsay has been asked to join group		
1) For actual conversation with FDR, see page 341		
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Taxation

See also Foreign Capital; Restriction of Inflow

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HMJr asks Oliphant if FDR can treat the 4¢ tax like the others, i.e., reduce it by half - 2/23/37..... 140

    a) HMJr tells Oliphant "yesterday Treasury had to buy a hundred thousand sterling against copper that was exported from this country; we actually have a shortage of copper in this country - 17¢ price abroad

    b) Oliphant memorandum as prepared for FDR - 2/25/37.... 226

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Eastman accepts HMJr's invitation for discussion of comments on undistributed profits tax in Interstate Commerce Commission report - 2/20/37..... 10

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- Hopkins reports on plan to transfer 25,000 non-relief and administrative employees out of Works Progress Administration prior to January 1st - 2/27/37..... LVI 401
- a) Report (August, 1936, to January, 1937) shows that 6,000 administrative employees and nearly 29,000 non-relief workers have been dropped

Whiskey

- Federal Trade Commission starts action against five of the largest distillers and one wholesaler in New York City, charging restraint of trade, price fixing, and boycotting - 2/23/37..... 50
- a) Alexander asks transfer of this action to jurisdiction of Federal Alcohol Administration; Tumulty constant visitor at Alexander's office
  - b) Taylor confers with Alexander, who finally withdraws request
  - c) Tydings (Millard) proposed bill would validate and legalize distillers' actions which were bases of charges
  - d) Oliphant resume' read by FDR who then says "go ahead and press hard before Federal Trade Commission"

Wolfe, Joe

See Appointments and Resignations

U

GRAY

London

Dated February 20, 1937

Rec'd 7 a.m.

Secretary of State

Washington

34, February 20, 11 a.m.

FOR TREASURY FROM BUTT WORTH.

I am confidentially informed that Board of Trade's balance of payments statement which is scheduled to be issued at the end of this week will probably show a figure between an adverse balance of 10,000,000 pounds and a favorable balance of 5,000,000. As reported in my 67, February 20, 1936, last year's statement gave a favorable balance of 37,000,000 pounds for 1935; during 1936 the adverse trade balance increased by 73,000,000 pounds and silver shipments amounted to 14,000,000. On the other hand, shipping income has increased by 20,000,000 pounds and foreign investments by 10,000,000 together with increases in miscellaneous items.

I am given to understand that the British Treasury when it learned that the Poles intend to make statement in New York indicating that they would default on their sterling and dollar bonds made an unsuccessful last minute attempt to prevent its issue. The British Treasury does not believe

believe

U -2- #84, Feb. 20, 11 a.m. from London

believe that the Poles have any intention of defaulting on their sterling obligations and maintain that they have and will continue to advise them not to default on their dollar securities. My own view is that the British will do what they can short of making difficulties for themselves to prevent default on the dollar tranches.

ATHERTON

RR:HPD

RECEIVED  
FEB 20 1947  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 20, 1937, 1 p.m.

NO.: 247 FROM COCHRAN

Exchange is relatively quiet on unofficial market this forenoon with Bank of France continuing to yield sterling. Forward franc more offered. Press carries Amsterdam Stock Exchange Committee protest to President Roosevelt on measures against foreign investors.

At Socialist parliamentary group meeting yesterday Auriol denied that he would resign as Minister of Finance and said there was no thought of changing Labeyrie at Bank of France.

It is the opinion of market observers that action towards solving present difficulties may be postponed until depletion of stabilization fund and of British credit are nearer. The influence of labor they fear is being strongly exerted through Jouaux upon the Government and that in the meantime there will be pushed the tendency toward nationalization of French key industries and insurance.

I was informed by Pennachio that on Monday there would be announced a reduction in the Italian tourist lira from 105.40 to 102 francs per one hundred lire. Pennachio said that the Treasury preferred to take this loss through the currency rather than a reduction again of hotel and railway rates to meet competition for tourists due to French ex-  
position,

position, and so on.

The meeting between Rueff and myself has been postponed by him until six o'clock this evening, since at 3 o'clock he is to see Blum and Labeyrie. It is likely that I shall send a further cablegram tonight.

BULLITT.

EA:LWW

RECEIVED  
FEB 25 1945  
TREASURY DEPARTMENT  
OFFICE OF THE ASSISTANT SECRETARY  
FOR INTERNATIONAL AFFAIRS

Paraphrase of Paris Embassy strictly confidential telegram No. 249, February 20, 1937, 7 p.m., from Cochran.

Please refer to the last paragraph of my telegram No. 247, February 20, 1 p.m.

This evening between 6 and 7 o'clock I saw Rueff who had conferred with Premier Blum late in the afternoon. Rueff said he wished to keep me informed of developments in the French situation and he wanted particularly to tell me of an exchange of correspondence with the British.

He said that Baldwin had written the French Premier under date of February 12 expressing the anxiety and unhappiness of the British over the continued loss of gold by France, indicating that the British feared this might lead to compromising the Tripartite Agreement and recalling to the French the provision therein for consultation among the appropriate authorities of the three parties to the agreement. Baldwin's letter crossed a brief personal note addressed by Auriol to Chamberlain expressing the desire of the French Minister of Finance to exchange views with the latter concerning the French Financial situation.

Rueff showed me the French text of a long communication dated February 17 which Auriol sent Chamberlain in continuance of his first note and in answer to the letter of the British Premier to the French Premier. Auriol's letter reviewed the French situation at great length, emphasizing the economic recovery which had taken place and excusing

heavy

- 2 -

heavy expenditures of the French Government on the ground that the international political situation makes it necessary for France to strengthen its armaments as the British are also doing. Auriol made the point that the French financial situation is difficult as the result of an internal political cause and also of an external factor. As remedy for the internal cause, he said, the French Government was considering the establishment of complete freedom for gold, was planning to check excessive expenditures, and would strive toward liberalization of trade. He felt that in the second place an international problem was involved because capital which is fleeing from France is going in part into the purchase of commodities and causing a sharp rise in their prices and in part into the purchase of foreign securities where it has a tendency to increase the speculative character of such investments.

It was in connection with this international phase of the matter that Aurio sought the cooperation of the British Chancellor of the Exchequer. He indicated willingness to stabilize the franc at its present level if the other parties to the Tripartite Agreement would make a public announcement pledging the union of the three currencies, i.e. indicating that in case one of the currencies moved, the others would move correspondingly and simultaneously. Auriol said that neither the French Government nor the Bank  
of

of France was considering French exchange control, as this would mean a rupture of the tripartite understanding. This morning, Norcy, Acting French Financial Attaché in London, returned to Paris bringing two letters from the Chancellor of the Exchequer to Auriol. The first was a general reply to the latter's letter. The second touched upon the more technical aspects of Auriol's suggestions.

The British emphasized the domestic character of the question confronting France. They advised that the sterling rate be held less rigidly by the French stabilization fund than has been the practice until the last few days. They thought that anything that could be done by France to check speculation against the franc and to restore domestic confidence should be done at once. They pointed out that the heavy selling of francs evidently came from French sources and that no large proportion of it could be attributed to speculation of foreigners against the franc. The British were not sure just what Auriol had in mind concerning establishing freedom for gold. They requested more explicit information on this. They very definitely rejected the idea of ~~having~~ banding the three currencies together and said the British Government had gone as far in the statement of September 25 as it is possible for it to go. In other words the British cannot undertake to tie sterling to the dollar

which

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which is practically attached to gold as this would involve de facto attachment of sterling to gold for which the British Government has no authority. However, they were willing to consider making a declaration simultaneously with the United States to the effect that they did not object to ~~xx~~ any fluctuations of the franc within the limits established by the French monetary law of October 1.

I was permitted to glance hastily at the long documents of which the foregoing is a very rough summary of the high points. Rueff said that the consultation with the French Premier this afternoon had not resulted in any decision being taken. The question will be studied Monday when Auriol, who is away, has returned to Paris. Blum, however, was insistent that there should be no resort by France to exchange control. Rueff reported him as saying that exchange control would not be inconsistent with his political ideas but it would have a tendency to hurt the good relations with the United States and Great Britain which he greatly cherishes and wishes to maintain.

I asked Rueff if he himself did not realize the truly domestic character of the French problem. He said he did fully realize this and that if it were not for the political complications the technical solution would be quite simple. I told him how frankly I had spoken to Auriol in the conversation

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sation last Monday reported in my telegram No. 211, February 15, 5 p.m.

Rueff told me that after our conversation reported in my telegram 233, February 17, 9 p.m., he had got in touch with Dean Jay of Morgans in Paris. The latter submitted to Morgans in New York Auriol's inquiry concerning borrowing on the American market. The New York house, Rueff said, did not take the matter up with Washington or even put it before Morgan Stanley for consideration but advised Rueff through Jay not to pursue the matter of a loan on the American market any further since, in present circumstances, it would be unacceptable on the American market even if it were not prohibited by the Johnson Act. This message, Rueff said, entirely confirmed the personal opinion I had stated to Auriol and to him.

Stressing the serious character of the Treasury's situation, Rueff promised to keep me informed of developments next week.

BULLITT.

EA:FL:LWW

RECEIVED  
FEB 21 1933  
UNITED STATES DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.

INTERSTATE COMMERCE COMMISSION  
WASHINGTON

JOSEPH B. EASTMAN  
COMMISSIONER

February 20, 1937.

My dear Mr. Secretary:

I have your letter of February 19 stating that you would like to discuss with me toward the end of next week the comments in our Annual Report in respect to the undistributed profits tax. Of course I shall be glad to do this, and will hold myself in readiness to call on you for that purpose at any time that you may suggest, although I shall be glad if you will give me a little advance notice.

I am very sorry that the letter which I wrote you in regard to this matter went astray in some manner. How it reached the White House is a mystery to me. As it contained a tentative draft of a letter to the President, it occurred to me that the envelope might through carelessness have been addressed to the President, but my office force is quite clear that this did not happen, and the fact that the White House, as I understand it, has no record of the receipt of the letter is further evidence that it did not happen. My office boy took a letter that day to the Treasury Building, but it went to the Bureau of the Budget and not to your office. He now believes that he put the letter to you in the mail. What actually did happen I do not know, but I assume the responsibility for the mistake, whatever it was, and regret it.

Of course, the tentative draft of a letter to the President was intended only for your personal use. It seemed to me a convenient way of presenting the matter, in view of the points made in your previous letter to the President, and that it would pave the way for our discussion.

Very sincerely,

*Joseph S. Eastman*

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

20 February, 1937  
Noon

COAST GUARD OPERATIONS IN FLOOD AREA

Coast Guard making arrangements to evacuate forces from Mississippi Valley as soon as need terminates, which is expected to take place first part of next week.

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Coast Guard force at present operating in the Mississippi flood zone numbers 19 seagoing units and 25 boats, the latter operating under the immediate direction of the DIONE at Natchez, Mississippi, where a shore office and communication center is being maintained, and two planes.

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GENERAL WATER LEVEL CONDITIONS:

Crest at Vicksburg 52.9 this morning; Natchez 57.8', a rise of 2/10ths a foot since yesterday; and New Orleans 18.8', a rise of 1/10th a foot.

February 21, 1939

I spoke to the President Sunday night, February 21, from the Farm, about the attached cable and he agreed with me that we ought to do nothing and just sit tight.

# TELEGRAM RECEIVED

1-1836

FROM

Paraphrase of Paris Embassy strictly confidential telegram No. 249, February 20, 1937, 7 p. m. from Cochran.

Please refer to the last paragraph of my telegram No. 247, February 20, 1 p. m.

This evening between 6 and 7 o'clock I saw Rueff who had conferred with Premier Blum late in the afternoon. Rueff said he wished to keep me informed of developments in the French situation and he wanted particularly to tell me of an exchange of correspondence with the British.

He said that Baldwin had written the French Premier under date of February 12 expressing the anxiety and unhappiness of the British over the continued loss of gold by France, indicating that the British feared this might lead to compromising the Tripartite Agreement and recalling to the French the provision therein for consultation among the appropriate authorities of the three parties to the agreement. Baldwin's

*Handwritten notes:*  
✓ E → Me  
el y  
Feb 21  
7  
14  
14

**TELEGRAM RECEIVED**

1-1226

FROM

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letter crossed a brief personal note addressed by Auriol to Chamberlain expressing the desire of the French Minister of Finance to exchange views with the latter concerning the French financial situation.

Rueff showed me the French text of a long communication dated February 17 which Auriol sent Chamberlain in continuance of his first note and in answer to the letter of the British Premier to the French Premier. Auriol's letter reviewed the French situation at great length, emphasizing the economic recovery which had taken place and excusing heavy expenditures of the French Government on the ground that the international political situation makes it necessary for France to strengthen its armaments as the British are also doing. Auriol made the point that the French financial situation is difficult as the result of an internal political cause and also of an external factor. As remedy for the internal cause, he said, the French Government was considering the

**TELEGRAM RECEIVED**

FROM

-3-

establishment of complete freedom for gold, was planning to check excessive expenditures, and would strive toward liberalization of trade. He felt that in the second place an international problem was involved because capital which is fleeing from France is going in part into the purchase of commodities and causing a sharp rise in their prices and in part into the purchase of foreign securities where it has a tendency to increase the speculative character of such investments.

It was in connection with this international phase of the matter that Auriol sought the cooperation of the British Chancellor of the Exchequer. He indicated willingness to stabilize the franc at its present level if the other parties to the Tripartite Agreement would make a public announcement pledging the union of the three currencies, i.e. indicating that in case one of the currencies moved, the others would move correspondingly and simultaneously. Auriol said that neither the French Government nor the Bank

**TELEGRAM RECEIVED**

1-1838

FROM

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of France was considering French exchange control, as this would mean a rupture of the tripartite understanding.

This morning, Norcy, Acting French Financial Attache in London, returned to Paris bringing two letters from the

## TELEGRAM RECEIVED

18

1-1226

FROM

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Chancellor of the Exchequer to Auriol. The first was a general reply to the latter's letter. The second touched upon the more technical aspects of Auriol's suggestions.

The British emphasized the domestic character of the question confronting France. They advised that the sterling rate be held less rigidly by the French stabilization fund than has been the practice until the last few days. They thought that anything that could be done by France to check speculation against the franc and to restore domestic confidence should be done at once. They pointed out that the heavy selling of francs evidently came from French sources and that no large proportion of it could be attributed to speculation of foreigners against the franc.

The British were not sure just what Auriol had in mind concerning establishing freedom for gold. They requested more explicit information on this. They very definitely rejected the idea of banding the three currencies together and said the British Government had gone as far in the statement of September 25 as it is possible for it to go. In other words the British cannot undertake to tie sterling to the dollar which is

## TELEGRAM RECEIVED

1-1220

FROM

-6-

practically attached to gold as this would involve de facto attachment of sterling to gold for which the British Government has no authority. However, they were willing to consider making a declaration simultaneously with the United States to the effect that they did not object to any fluctuation of the franc within the limits established by the French monetary law of October 1.

I was permitted to glance hastily at the long documents of which the foregoing is a very rough summary of the high points. Rueff said that the consultation with the French Premier this afternoon had not resulted in any decision being taken. The question will be studied Monday when Auriol, who is away, has returned to Paris. Blum, however, was insistent that there should be no resort by France to exchange control. Rueff reported him as saying that exchange control would not be inconsistent with his political ideas but it would have a tendency to hurt the good relations with the United States and Great Britain which he greatly cherishes and wishes to maintain.

I asked Rueff if he himself did not realize the truly domestic character of the French problem. He said he did

## TELEGRAM RECEIVED

1-1284

FROM

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fully realize this and that if it were not for the political complications the technical solution would be quite simple. I told him how frankly I had spoken to Auriol in the conversation last Monday reported in My telegram no. 211, February 15, 5 P. M.

Rueff told me that after our conversation reported in my telegram 233, February 17, 9 P. M., he had got in touch with Dean Jay of Morgans in Paris. The latter submitted to Morgans in New York Auriol's inquiry concerning borrowing on the American market. The New York house, Rueff said, did not take the matter up with Washington or even put it before Morgan Stanley for consideration but advised Rueff through Jay not to pursue the matter of a loan on the American market any further since, in present circumstances, it would be unacceptable on the American market even if it were not prohibited by the Johnson Act. This message, Rueff said, entirely confirmed the personal opinion I had stated to Auriol and to him.

Stressing the serious character of the Treasury's situation, Rueff promised to keep me informed of developments next week.

Bullitt

BC

Gray

Paris

Dated February 22, 1937

Received 5:55 PM

Secretary of State,  
Washington.

256 February 22, 5 p.m.

FROM COCHRAN.

In spite of New York being closed today there was fair activity on Paris exchange market with dollar sought by both Paris and London. Bank of France lost considerable sterling, one bank alone taking 500,000,000 pounds.

Rentes dropped two francs and general atmosphere was sad. Principal cause of today's unhappiness was considered to be Blum's speech of Sunday which indicated Government's opposition to changing its policies and again blamed capitalists for frustration of Popular Front Government's plans. Market observers fear that this speech and remarks of Auriol last week mean that there will be no present change in officers at head of Ministry of Finance and Bank of France.

BULLITT

CSB

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, PARIS

DATE: February 23, 6 p.m.

NO.: 260

FROM COCHRAN

**CONFIDENTIAL**

Paris exchange market slow. Bank of France reported to have yielded only small amount of sterling not because sentiment has improved but because domestic commercial need for funds as end of month approaches limits amounts available for export. Forward franc slightly better but rentes still declining.

I spoke with Cariguel last evening. He said that Monday had been a bad day for the Bank of France. I spoke also with Simon who is head of the Societe Generale. He told me that the Government should understand that it is the middle (\*) of the holders of government securities who are so numerous in France who fear most of all the government's program and get rid of their securities and hide or export their capital as a consequence. Simon felt resentful to the charge that the bankers are trying to wreck the government.

Labeyrie asked me to call at the Bank of France sometime during the week and Auriol said last night that he would telephone me to come over sometime this week. Auriol was visited by Aragon, Paris Morgan partner, last night.

The latter

-2-

The latter did his best to convince Auriol that the holders of capital will have no faith in the government until the government has enough faith in the people as tax payers and investors to cease the threats and investigations that are continually being directed against them.

I received calls today from Lee of Guaranty and Jay of Morgan's. Real concern over the French financial outlook was expressed by both. They both expect a scarcity of money on the Paris market at the next settlement date. In addition, they do not clearly see how the French Treasury will meet its needs of the next two or three months. Lee mentioned that in London an effort was being made to interest banks there including Guaranty in a loan to Haiti by the Haitian Minister.

(END MESSAGE)

EA:DJW

RECEIVED  
MAY 25 1944  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.

GROUP MEETING

February 23, 1937  
9:30 A.M.

- Present: Mrs Klotz  
 Mr. Magill  
 Mr. McReynolds  
 Mr. Oliphant  
 Mr. Lochhead  
 Mr. Taylor  
 Mr. Haas  
 Mr. Upham  
 Miss Roche  
 Mr. Gaston  
 Mr. Bell

Magill: The Carriers Taxing Act we spoke of before has been reported favorably by the Finance Committee without any opposition. It's on the calendar of the Senate. They probably will recess today on account of Mr. Buchanan's death without taking action; but it seems to be properly cared for.

I've had a couple letters from Mr. Burgess of the Federal Reserve Bank about alien investments in Governments. One of them here.

H.M.Jr: Well, I've asked him to study it. Do you think we ought to get together in advance of hearing Mr. Hull? The way we left it was Mr. Hull would call me.

Magill: Well, I'd like to get together myself with George and Herman to see what the boys have worked out.

Oliphant: They'll have it ready by twelve o'clock; that is, the boys from the Bureau.

Magill: Well, let's get together right after that.

H.M.Jr: Joan and I were talking about it, and we want to know why we can't simply tax the alien just the way we tax an American citizen, and that way remove all objections of the State Department. Just tax any alien just like an American.

Magill: If you can persuade him to file a return, why, I'm with you.

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- H.M.Jr: Joan and I can't understand why we just can't tax any alien exactly the same as an American citizen.
- Magill: You tell her that they're nasty fellows and they won't file returns.
- H.M.Jr: Well, supposing we withhold all income until they do.
- Magill: Suppose they didn't have any income that you could withhold.
- H.M.Jr: Well then, we wouldn't file a return.
- Magill: That's your big problem on the capital gains, to find who to put the finger on.
- H.M.Jr: We just can't understand why they shouldn't be treated just the same.
- Magill: She may be right.
- H.M.Jr: We talked it over, and I was going to call you as soon as I could. She came down and said, "Have you called Dr. Magill?" "Not yet, Joan; there must be a catch." She said, "You better call him."
- Magill: Shall I write her a letter?
- H.M.Jr: If you do, make it stand up; that's all I can say. And incidentally, you might send me a copy. It's interesting; why, it seems that that's just the simplest thing.
- Mrs Klotz: Joan says that.
- Haas: It's a problem of administration.
- H.M.Jr: I mean if you just said we'll treat any alien just the same as an American citizen, then the State Department can't say there's any discrimination.

Incidentally, on that there is this thing which Herbert Feis gave us. Then - I don't know - he did some mumbling under his breath. Here it is: "Discrimination Taxation of Foreigners." And this is

written by what's-his-name, Feis's assistant.

Taylor: Livesey.

H.M.Jr: Livesey. And he comes out in.... Written for Livesey - I mean for Feis. And they come out here flatfootedly in this thing and say that any increase in tax on aliens will be harmful to their policy over there, which is just absolutely contradictory from what Feis wrote me in that letter.

"In other words, the treaty with Canada is internationally the most vulnerable aspect of the present proposal. If the United States wants to give residents of Canada or Mexico this preference, it cannot simply stand on the position that it is imposing the 20 percent rate on other nonresident aliens in order to remove a preference they now enjoy over American taxpayers. Our policy is obviously and importantly discriminatory against Great Britain, France, and the Netherlands, Switzerland, and less importantly against other countries, so long as we retain and implement the preference for contiguous countries. It appears therefore that the presentation of the matter to the public and to foreign countries should justify the measure at least in part on its actual grounds and not on grounds of equitable treatment of both American and alien investors."

Well, that is just one hundred percent different than what Feis wrote me. And then after Feis gave it to us - I mean he did some mumbling. Then I said, "Why didn't you give it to me before, Herbert?"

Magill: Why don't you give Joan this first sentence here?

H.M.Jr: What's that?

Magill: "Since it is impossible to obtain adequate information to tax foreigners residing abroad at the same income tax rates they would pay were they residing in the United States, it is impossible to give them 'national treatment.'"

H.M.Jr: I know, but - I mean the other thing.

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Oliphant: You've passed that.

H.M.Jr: I know, but you read that and then take it and stack it up against what Mr. Hull said here for an hour and forty-five minutes, plus what Mr. Feis wrote.... That's what they really think. In other words, what they say in that memorandum is that anything we do in the circumstances is discriminatory and on that basis how can they make any more trade treaties.

Haas: You know how the British handle theirs as far as discrimination is concerned. They put on this 23 and a fraction, then give a rebate to their own nationals but not to Americans. But the State Department has never objected to that discrimination.

Magill: No, that's British discrimination. That's allowed under the rules.

H.M.Jr: And the memorandum you (Taylor) gave me from our friend just doesn't stand up either.

Taylor: I didn't say that it did. I just said it would be interesting.

H.M.Jr: It is interesting, but too pro-British. I mean - I can't lay my hands on it; I read it; but it's here; no, it isn't - it's entirely too pro-British.

Magill: I have a bevy of letters on the subject this morning; said the thing to do is get at the source and quit paying so much for gold.

Haas: Why go into that?

H.M.Jr: Well, of course, the plan which I suggested to the President for the next move, I think, is a much better one. Have you heard about that one, Miss Roche? We're going to introduce a law that we're going to pay domestically the price of silver by states, put the silver purchasing program on a state basis; that is, from now on until Congress adjourns. Then we'll go back to the original plan.

Roche: That ought to help with the Court, though.

H.M.Jr: Exactly. You got it.

Roche: I thought I had it.

H.M.Jr: The President said, "You better announce it as the Morgenthau plan."

Roche: I know two negative votes that would probably turn the other way.

H.M.Jr: I told him it was good for eight or ten votes. And it's not so dumb. In the room, I think it is a good deal better argument than some that have been given on the radio.

Oliphant: Much better.

H.M.Jr: What?

Oliphant: Much better, because more realistic.

H.M.Jr: The more I think of it, the better I think it is in the way of getting votes.

Well then, you fellows are going to - do you want me to keep this afternoon free - say, three o'clock - for a meeting amongst ourselves?

Oliphant: I think it would probably be a good idea.

H.M.Jr: Well then, supposing we have a meeting at three o'clock.

For those of you who don't read Lawrence Pegler, I suggest that you do.

Gaston: Westbrook.

H.M.Jr: Westbrook Pegler this morning.

Taylor: Well worthy of consideration.

H.M.Jr: What?

Taylor: Well worthy of consideration.

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H.M.Jr: You've read him? Who's read Pegler this morning?

Magill: I have.

Oliphant: Later in the day.

H.M.Jr: Do you want a transfer to the Department of Justice?

Magill: He makes a great case.

H.M.Jr: Well, anybody wants to be transferred, let me know. Anything else?

And incidentally, you, young fellow - you (Oliphant) were all hot and bothered and had me put my name on a certain signature for a letter to a gentleman, then get an answer; then nothing happens.

Oliphant: The scene shifts a little. More work being done on it. We met on it for a good long session Friday.

H.M.Jr: Well, I think you ought to.

Oliphant: We're working on it.

H.M.Jr: You're looking better.

Oliphant: I feel fine.

H.M.Jr: Herbert?

Gaston: (Nods negatively)

H.M.Jr: Archie?

Lochhead: Nothing.

H.M.Jr: Archie sent me up a telegram all the way to the country.

This one for your (Mrs Klotz) notes. I spoke to the President at ten o'clock - what night did I say, Sunday?

Mrs Klotz: Saturday night I thought you told me.

Lochhead: Sunday night, it must have been.

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H.M.Jr: He said just to sit tight, do nothing .

Hello (On phone to Burgess; conversation not recorded on dictaphone) Hello, how are you? - You let George keep shooting the quail that Wayne Taylor didn't get. - No, you tell him a bird in a pot down there is worth two up here in Washington. - Yes, but you'll be down. - All right. - Well, Magill says he has some correspondence from you and he's going to try to digest it today and then.... - All right. - All right, 'bye.

Burgess.

Gaston: I should have reported that the Counselor of the Japanese Legation came in to see me Saturday and they were very curious about the laws about shipment of gold, and what would happen if Japan should ship gold to the United States, whether Japan could earmark gold, whether Japan could get gold out again, and whether they could purchase gold from us.

H.M.Jr: Say, you fellows (Gaston and Lochhead) better get together. You two stay after school; the two of you, will you? The two of you better stay after school.

Taylor: Four o'clock Friday I got the same questions.

H.M.Jr: You two fellows better stay after school here; I mean right after this meeting.

Gaston: It was Saturday noon this man came in to see me.

H.M.Jr: All right. What do they say, those Japanese, you know? Two shells - there they are; then they are not.

Taylor: Well, apparently they both asked the same questions.

Gaston: I think they probably asked the same questions.

Taylor: They didn't like the answers I gave them, apparently.

H.M.Jr: Well, supposing the three of you stay after school and I'll talk to you.

Gaston: Yes.

H.M.Jr: I mean I think we better get together. They shouldn't - I mean - well, I want to talk about it. Anything else?

Gaston: No, that's all.

H.M.Jr: That's the beauty of these meetings. We find out what each other are doing.

Taylor: It's a long time ago. I'd just about forgot.

H.M.Jr: Saturday? All right. You (Taylor)?

Taylor: Senator Pittman. "My dear Mr. Secretary: There have been a number of articles written in the domestic and foreign press, in the last month or two, with regard to our silver policy. I have paid no attention to these articles because they were mostly instigated by bullion brokers who desire an open market for both gold and silver, for obvious reasons.

"In view of statements made by the President in his campaign address at Denver, I am rather surprised to see an editorial in the Washington Post of this date not only attacking the silver policy but making this statement:

'The Secretary is now suggesting that the Senate Special Silver Committee should advise him as to the price they consider it proper to pay for newly mined domestic silver.'"

Shall I continue?

H.M.Jr: Please.

Taylor: "This is the first time I have heard of any such suggestion.

"I made a speech before the Mining Congress at Denver shortly before the President made his campaign speech there. My address will be published in a few days in the Mining Congress Journal. In

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this address I have discussed both the gold and silver policy of the United States. I will send you a copy of it when it is printed.

"It would appear that no one has any knowledge of your policy to use silver in tying the currencies of certain countries to the dollar, as you have very successfully done both in China and Mexico.

"None of our self-constituted monetary experts seem to realize the power that our Government would have in the future stabilization of currencies by having possession of large quantities of both gold and silver. I realize, of course, that we are faced with a temporary problem in the flight of gold into the United States. I still believe that it will be temporary, depending upon when the political situation in Europe is adjusted, either by war or otherwise.

"The Senate Special Silver Committee, through assistance, has been preparing a report for some time, but changing conditions have delayed such report. It will be made at this session of Congress, after more important matters have been disposed of.

"With best wishes, I am - Sincerely, Key Pittman."

H.M.Jr: Well, the answer is very simple. "My dear Senator: Thanks for your letter of such and such a date. Yours sincerely."

Oliphant: There was a fact I'd like to mention.

H.M.Jr: "Looking forward to receiving your article, I am - Sincerely yours."

And what's your point?

Oliphant: Copper has passed fifteen cents. Just a psychological moment.

H.M.Jr: No, you're wrong on the psychological basis. Listen, I don't want to be the fellow that they say, "If it hadn't been for ....., we would have gotten the Court

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through." See?

Oliphant: Notice how he voted Saturday?

H.M.Jr.: How did he vote?

Oliphant: Against the bill.

H.M.Jr.: Against it? You mean with the President?

Oliphant: No, against.

H.M.Jr.: No. Just like Mac's got a certain proposition in the State of Ohio. We looked it up and Bulkley for the moment is with the President. And believe me, before they get through they're going to be looking for goats, and I "aint" going to be it. And if - anything that waited for a year and a half could wait for a year and seven months. If it's waited a year and six months, it can wait a year and seven months. This thing is going to get down to a matter of two or three votes, and papa "aint" going to be the goat. I'm not around this town four years for nothing. Am I right?

Oliphant: The water is running the other direction.

H.M.Jr.: Which way?

Oliphant: Well, it's all material for the man across the street.

H.M.Jr.: Oh yes, if he wants to play with the price of silver, that's something different.

Oliphant: No, my point is that the whole basis for the subsidy of silver disappears with the recovery of the price of copper.

H.M.Jr.: Well listen, I'll have to debate with you. May I remind you that I once talked to a Senator from Arizona by the name of Ashurst and asked him how he felt about the price of silver, and he said, "My dear boy, I can no more discuss the price of silver with you than I can discuss my religion." And I don't see where the price of copper comes in on that. I just don't see where the price of copper enters on that. Am I right? Anybody? Does the price of

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copper make any difference in your (Roche) silver?

Roche: We have silver.

H.M.Jr: What?

Roche: We have silver.

H.M.Jr: Does it make any difference?

Roche: I don't think so.

Taylor: You might read Mr. Pegler's piece again and change some of the words, change the subject.

H.M.Jr: It doesn't in the State of Idaho, which is the big silver state.

Roche: I don't know enough about these things.

H.M.Jr: It isn't in Utah. What?

Roche: If you talk about coal, I might have some comments that would be in order.

H.M.Jr: Well, thanks for the suggestion, but...

Oliphant: I think that's a notable event, when copper went above fifteen cents.

H.M.Jr: But I think, in view of the general political situation, certainly nobody should play with the price of silver except the President of the United States. Now, does anybody disagree with me?

Oliphant: Of course not.

H.M.Jr: What?

Oliphant: Of course not.

H.M.Jr: I think my suggestion was a much better one, that we pass a law that we pay for silver based on the cost of mining it in each state and buy it on a state basis.

Taylor: Giving credit for copper.

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H.M.Jr: Or anything else. All right. But Herman, just - anybody should play with it except the President?

Oliphant: No, sir. If the President decides the price of copper is very important - that's my only point, that he decide the price of copper is very important.

H.M.Jr: Have I passed you (Taylor)?

Taylor: Just that. The "Dear Key" letter - one of these, you know, "Dear Key" letters.

H.M.Jr: George?

Haas: I haven't got anything very important. There's one of those letters from Harvard (hands letter to Secretary). They get your advice on how to handle - it's that new school, I think.

H.M.Jr: This question of administrative training?

Haas: It's a question of training people for Government service. They're establishing a school.

H.M.Jr: Well, you're the third person that got one of those. I understood that Mac got one and Herman got one. I mean they do this thing in such a funny way. They first write. Then the President writes me a letter. They've asked Mac and they've asked Oliphant; now they've asked you.

Haas: They may want an economist if it's a question of training people for Government service.

H.M.Jr: I think I'll write President Conant a letter and say would he mind - would they make up their minds what they want, see? Because this is the third person. Next thing they'll be writing they want Bell. And - I mean I think they ought to let us know. Don't you think so? We've said yes. Why don't the three of us get together and then prepare a letter to Conant. But I think the letter ought to go to Conant. Wouldn't you (Magill), as a university man, say so?

Magill: Who's writing this letter to us?

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H.M.Jr: His secretary. I've had one letter from Conant on that.

Magill: Yes, I should think so.

H.M.Jr: What? I'd write a letter to Conant on that. That agreeable to you, George?

Haas: Yes, fine.

H.M.Jr: Miss Roche?

Roche: Nothing special, sir. A Mayor LaGuardia item in the paper about taking our Hoffman Island. There's been no formal transaction or suggestion there, but we've been trying to find some use for it up in New York to take it off our hands - Public Health Service.

H.M.Jr: Through Procurement.

McReynolds: I've consigned it.

H.M.Jr: Oh, did you?

McReynolds: I've consigned it.

H.M.Jr: Just check that with Mac. I'm quite sure that Admiral Peoples - for some reason seemed to be custodian - sent a letter over for me to sign.

Roche: Well, I didn't know that it had definitely been signed.

Mrs Klotz: In answer to a telegram.

H.M.Jr: I think you'll find, if Mac will look it up, that Peoples gave it to the city; but from reading the publicity you wouldn't know the Treasury was in it. What?

Roche: It didn't seem as though we had taken any initiative.

H.M.Jr: Well, my impression is a letter from Peoples, I think.

Roche: Well, I'll check.

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H.M.Jr: I think so. But you wouldn't know we even were in it. Anything else?

Roche: That's about all, sir, this morning. Nothing very important.

Oliphant: May I ask if the Vandenberg study of the need for Social Security reserves - is that in the shop somewhere?

H.M.Jr: George Haas called me up. You can tell the story, George.

Haas: Bell probably knows more about it than I do.

H.M.Jr: Well, tell them, though - tell them about the telephone conversation.

Haas: Yes, O.K. Sunday morning I told the Secretary that on Saturday afternoon Altmeyer got in touch with Russell Reagh, who is the Government Actuary in my division, and showed him a copy of a letter which they were addressing to Senator Harrison, the Chairman - I don't know if it was in his capacity as Chairman of the Finance Committee or not. But it dealt with the Vandenberg resolution regarding an investigation of the old age reserve account, as I understand it.

Reagh checked off the figures, which appeared to be all right except in a few minor instances. It was only one or two sentences, which dealt with the economic nature of the fund, wherein I suggested a change, which I presume they accepted. I addressed this change to Altmeyer over Dan Bell's signature. And they also...

H.M.Jr: Have you got Dan signing on the dotted line?

Bell: Blindly.

Haas: As Assistant to the Secretary.

H.M.Jr: I see.

Bell: I signed another way as Acting Director of the Budget.

Gaston: Did you agree, Dan?

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Bell: Well, I don't think I did.

Haas: Altmeyer thought it would be... They were going to have this meeting on Washington's Birthday and Altmeyer thought it would be well if the Treasury Department, in addition to sending up a person who dealt with the finances, would send up an economist who would be in a position to answer the economic questions which arose - which arise from the building up of this large reserve fund. I suggested to Dan, and he agreed with me, that it would be better for us and better for the Social Security if we remained away from it at that time, particularly in view of the fact that the Reserve Board, I understand, had some opinions with regard to this fund and the handling of it, and I really don't know what their opinion is. So nobody, as I understand it, from the Treasury went up there yesterday.

Bell: That's right.

H.M.Jr: Well, then you asked me would it be all right to talk to Goldenweiser and I said yes.

Haas: That's right, and I'm going to do it.

H.M.Jr: Oh, you haven't done it yet.

Well, does anyone want to raise any - that's the beauty of these meetings.

Bell: I asked Mr. Altmeyer if he'd give his testimony along the lines that the Board needed more experience in order to determine these larger questions of policy, and he said he would, and he thought that was a good line to take. There was only one thing I saw in the paper this morning that worried me, and that was that he told the Committee he thought they might start benefit payments a little earlier; and my understanding with him on that was the President didn't want anything done along that line in this year; he thought that ought to go over for another year until they could get their administrative feet on the ground.

Haas: That's going to cost money to the Treasury.

Bell: Sure.

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H.M.Jr: Well, everybody know where it stands? All right?  
You're all right, Miss Roche?

Roche: Yes, sir.

H.M.Jr: Dan?

Bell: I don't believe I have anything.

H.M.Jr: I'd like to see the crowd that works with me on  
financing at four o'clock this afternoon. See?  
I'd like to have a sort of preliminary at four.  
And the people - you (Haas) know, you're in on it -  
Haas, Bell, Taylor, and Archie. Let's have a meeting  
at four as a preliminary. Pretty well jelled in  
my mind, but...

Upham: The Comptroller said some very nice things about  
you Saturday night. I gave you a clipping, but I  
think perhaps it.....

H.M.Jr: Sober?

Upham: Yes, he never drinks.

Mrs Klotz: Much.

H.M.Jr: Is he a teetotaler?

Upham: Yes, he does not drink.

Taylor: Nor smoke.

Upham: Maybe that's one of his troubles.

Bell: May be one of mine too.

H.M.Jr: What's that?

Bell: We (Miss Roche and himself) don't either, so there  
must be something wrong with us.

H.M.Jr: Do you (Upham) drink?

Upham: Oh, once in a while.

H.M.Jr: Now, Cy, you know..... Bell, I've never seen you  
drink.

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McR: Sure Cy drinks.

Bell: Oh, I'm all right. Just Jefty and I.

H.M.Jr: Just you and Jefty. He (Upham) can't join that club. He's got too many exceptions. Dan's - I've never seen Dan break it.

Bell: I'd have to be pretty low. Mac gets me once in a while....

McR: I wasn't going to tell that.

Bell: Well, I expected it to come out, so I thought I'd better protect myself, say it first.

H.M.Jr: This is going to be a confessional. There's too many of us know each other around here. Next thing Archie will get up and say he never drinks or never smokes cigars. What's the matter, Mac?

McR: Not a thing.

(Hearty laughter)

H.M.Jr: Anybody else want to join that club?

McR: I never commit myself.

That's the approval of the selection of Keith as Assistant Collector up there in New York. I think everybody's agreed that it ought to be done.

H.M.Jr: Gregory's done a good job. (Signs appointment)

McR: Gives him a fifteen hundred dollar promotion on the first of March. Everybody will be happy about that.

H.M.Jr: What else?

McR: That thing that you handed me from Wallace the other day. I'm afraid you won't get anything back on it today. Elmer couldn't get hold of the Agriculture people on Saturday at all.

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H.M.Jr: Mrs. Klotz, you write a letter to Henry Wallace in acknowledgment for that. Say: "Dear Henry: I beg to acknowledge receipt of your letter of such and such a date. I am enclosing herewith a photostatic copy of your letter to me for your files.

"I have immediately started an investigation of these charges, and just as soon as the investigation is concluded, I will give you a copy of the same."

I'm certainly not going to have anything like that. He wrote me a letter in which he said, "I am sending you the carbon copy in order not to have anything in my files." It's a charge against a man in Procurement that works with Resettlement. Well, I'm sending him back a photostatic copy of his letter so it can go in his files. If there's anybody in Treasury, why shouldn't they be....

Oliphant: Every reason why it should be.

H.M.Jr: What?

Oliphant: Every reason why it should be.

H.M.Jr: I'd like to have that go by hand. It's a most unusual thing. It was Procurement, wasn't it?

McR: Yes.

H.M.Jr: Two. Was one of them Bell's man?

McR: No, they were both Procurement.

H.M.Jr: All right. But I'm glad; I knew I had something on my mind. Anything else? Anything that I forgot?

Mrs Klotz: I don't think so.

H.M.Jr: Any afterthought? All right. Well then, if Taylor - the three Japanese boys can stay.....

Tuesday  
February 23, 1937  
10:20 a.m.

Rep.  
Elmer J.  
Ryan

Hello

HMJr: Good morning

R: Hello, Mr. Morgenthau

HMJr: How are you?

R: Oh, very well -

HMJr: Ah -

R: I wanted to get down and see you, you know? -  
This is Congressman Ryan.

HMJr: Yes, I know. Well, do you want to come right away?

R: Well, I guess I could.

HMJr: I've got an eleven o'clock appointment. Could you  
get here before that?

R: I think so. I'll be there.

HMJr: I'll be glad to see you.

R: All right, Mr. Secretary.

HMJr: Goodbye

Tuesday  
February 23, 1937  
11:19 a.m.

HMJr: Hello  
Treas.  
Operator: Yes

HMJr: yes

T.O.: Shall I put him on?

HMJr: Please

T.O.: All right, go ahead.  
Burton  
"heeler: Hello

HMJr: Hello, Burt

W: Hello, Henry

HMJr: How are you?

W: I didn't know whether you'd speak to me this morning  
or not.

HMJr: Well, what - have you said something nice about me?

W: (Laughs) No, no, not about you, Henry. I did about -  
I mean about this court victory.

HMJr: Oh, I'm in the Treasury.

W: I know that. Say Henry -

HMJr: Yes

W: I have a letter from a man up my State saying  
that there is a report out there that's quite current  
to the effect that your - that the Administration is  
going to seek to repeal the Silver Purchase Act. I  
wrote him a letter in which I said to him that I didn't  
think there was anything to it. But I did think I'd  
better call you up because I don't want to make a liar  
out of myself.

HMJr: Well, Burt, you don't think we'd make silver in the  
Supreme Court, do you?

W: No (laughs), no -

HMJr: What?

W: No (laughs)

HMJr: What?

W: No (laughs)

HMJr: Well, I don't know. I mean you start by the Supreme Court and then you swing over to silver.

W: Oh, well, I was just joking about the Supreme Court.

HMJr: Are you sure?

W: Yes, I was just joking about the Supreme Court.

HMJr: Well, -

W: I was kidding about that.

HMJr: Oh -

W: But really, seriously, about the other thing, is - have you anything in mind or - ?

HMJr: The only thing - that all this stuff is in the paper.

W: Yes

HMJr: When I appeared before poor old Buck -

W: Yes

HMJr: - in the House

W: Yes

HMJr: He asked me a lot of questions.

W: Yes

HMJr: And Buck was very - wasn't very much opposed to it and I answered him as frankly as I could -

W: Yes

HMJr: And since then my mind - I told some people the

-3-

other day, we've got too much to do down here and my mind is not on silver.

W: Yes

HMJr: And, perfectly frankly, I haven't discussed it with the President in six months.

W: Yes - well -

HMJr: And - you answered your constituent truthfully.

W: Yes, all right. Well, that's all I wanted -

HMJr: How's that?

W: That's all right.

HMJr: I mean, I don't know when it will come up. But I can say that up to twenty minutes past eleven on Tuesday, February twenty-third, I have done nothing on silver and haven't been thinking about it.

W: Yes, well of course, Key Pittman and I will fight hell out of you if you try to.

HMJr: What?

W: I say, Key Pittman and I will have to scrap hell out of you if you seek to do anything of the kind.

HMJr: Well, I'll have to go around and see Senator King and have him rescue me.

W: (Laughs) All right.

HMJr: What?

W: All right. Yes.

HMJr: Politics make strange bed fellows, you know.

W: That's right, Henry.

HMJr: All right, Burt - Now, I - that's the answer and I - if I was ever going to do anything -

W: Yes

-4-

HMJr: I'd be man enough -

W: Yes

HMJr: - to let Key Pittman know and ask him to call a meeting and I'd tell him just what I was going to do.

W: Yes

HMJr: See?

W: Absolutely

HMJr: How's that?

W: All right, that's fine, Henry.

HMJr: O.K., thank you.

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L P L I

DEPARTMENT OF STATE

Office of the Economic Advisor

February 15, 1937

DISCRIMINATORY TAXATION OF FOREIGNERS

Mr. Feist

Since it is impossible to obtain adequate information to tax foreigners residing abroad at the same income tax rates they would pay were they residing in the United States, it is impossible to give them "national treatment." Any rate of taxation applied on American income of such foreigners will involve giving them better or worse treatment than American nationals residing in the United States receive. However, such foreigners can at least be given most-favored-nation treatment even if it is impossible to give them national treatment.

If the Executive recommends to Congress the enactment of a 20 percent withholding tax against nonresident aliens but with proviso that such rate shall be reduced, in the case of a resident of a contiguous country, to such rate (not less than five percent) as may be provided by treaty with such country, and then submits to the Senate a treaty with Canada reducing the withholding tax on residents of Canada to five percent, then of course there will be protest by foreign governments that they are not receiving most-favored-nation treatment. Here the word "discrimination" will be correctly used. It will also be discrimination based on applying the same rate that is applied against the United States. This will be an invitation to all countries having lower rates to impose a 20 percent rate on American citizens, and will leave little complaint available to the United States in case this is done.

The people who will be hurt by a twenty percent withholding tax are British, French, Swiss and other investors who have put funds in American securities with the expectation of holding them for a long time for income rather than for appreciation of value. These are the individuals to whom the heft of the American tax will be of importance. However, there is no government in the world that may not take notice of the discrimination involved in the Canadian treaty as an indication that the United States will not be in a good position to protest against discriminatory taxation applied to American citizens relative to that applied to, say, British citizens.

If the increase in rates is to be recommended to the Congress, the sponsors and spokesmen for the proposal will need to know how to treat the Canadian treaty matter in their presentation of the increased rate proposal. If the increase is recommended as being the application of equitable rates on alien nonresidents because of the inability to apply identical rates on individuals in the same income status, then the concession to Canada by treaty of a reduction of 75 percent of the tax on residents of Canada will be even harder to defend in case of protests by other governments.

In other words, the treaty with Canada is internationally the most vulnerable aspect of the present proposal. If the United States wants to give residents of Canada or Mexico this preference, it cannot simply stand on the position that it is imposing the 20 percent rate on other nonresident aliens in order to remove a preference they now enjoy over American taxpayers. Our policy is obviously and importantly discriminatory against Great Britain, France, and the

Netherlands, Switzerland, and less importantly against other countries, so long as we retain and implement the preference for contiguous countries. It appears therefore that the presentation of the matter to the public and to foreign countries should justify the measure at least in part on its actual grounds and not on grounds of equitable treatment of both American and alien investors.

RECEIVED  
MAR 4 1937

Division of Research and Statistics  
Office of the Secretary  
Treasury Department

EA:FL:DJW

February 23, 1936

The President read the attached memorandum from Oliphant on the "whiskey matter" very carefully and he said, "Go ahead and press it hard before the Federal Trade Commission."

TREASURY DEPARTMENT

51

INTER OFFICE COMMUNICATION

DATE FEB 20 1937

TO Secretary Morgenthau  
FROM Herman Oliphant

*Press It.*

For your information -

I am having Manning make a study in connection with the "whiskey matter." The developments so far are as follows:

1. Some time ago, there was an action started by the Federal Trade Commission against five of the largest distillers and one wholesaler in New York City charging restraint of trade, price fixing and boycotting. When this action was started, W. S. Alexander sent his General Counsel, Buck, to the Federal Trade Commission who requested that the action be transferred to the jurisdiction of the Federal Alcohol Administration. This fact was brought to the attention of Assistant Secretary Taylor and he took the matter up with W. S. Alexander, and the request was withdrawn. Tumulty, during this time, has been a constant visitor at W. S. Alexander's office.

2. A bill was introduced in the Senate by Tydings, and in the House by Miller which would, by its terms, validate and legalize the actions of these distillers which were the bases of the charges made by the Federal Trade Commission. Mr. Kelley, General Counsel of the Federal Trade Commission, has informed us, that pending the

- 2 -

outcome of this proposed legislation, the respondent distillers have been given indefinite time to answer the complaints, and the whole action has been "put on the shelf." We are the following the course of this legislation.



Mr. Herald Tribune

2/19/37

## News of

## Celler to Ask Trade Unit Quiz Of Tydings Bill

### Plans Minority Report to House on 'Hidden Dangers' of Forced Price Rises

From the Herald Tribune Bureau

WASHINGTON, Feb. 18.—Decision to ask the Federal Trade Commission to investigate the possible effects of the Tydings-Miller bill before Congress acts on this proposal to legalize retail price fixing of trademarked articles under state laws, was announced today by Representative Emanuel Celler, Democrat, of New York, who plans to file a minority report to the House on the "hidden dangers" of the measure, which, he contends, "is to be used to force up prices unreasonably."

"I prepared a minority report calling attention to indications this bill is to be used as a club on manufacturers to force them to boost prices to obtain pre-determined levels, and the statements which have been issued by both its proponents and opponents, since I announced my intention to file this report, convince me that these indications are in reality facts," Representative Celler declared. "As a result of these disclosures, I intend to add to this minority report a suggestion that the House Judiciary Committee ask for a Federal Trade Commission investigation of the entire subject before the bill is placed before Congress."

"If under the guise of curbing predatory low-leader selling, of which I am heartily in favor in order to protect the small man from abuses of competitive power, a concerted drive is effected to force manufacturers to fix prices at or above percentages which average the cost of both the efficient and inefficient, something must be done, and done quickly, to protect the consumer. A concerted drive to boost prices in that way is just as serious as a concerted drive to drive down prices until the small merchant is ruined. If manufacturers are boycotted in the process, even questions of legality arise."

Mr. Celler advanced the idea of "limiting" a right to fix prices under the bill to some standard that will shield the consumer from exploitation and at the same time protect the small merchant from abuses.

"Perhaps invoice costs plus a reasonable percentage to cover efficient labor costs is the right level," he suggested, "but whatever it is, there is ample data available from the N. E. A. files on which to base it fairly."

He cited a statement issued by the executive secretary of a pharmaceutical association as revealing that "the intention of the dealers in this organization, actually is to get prices put up until gross profit margins are about 40 per cent, or 35 per cent." "The national association in the same line is now discussing the objective as 50 per cent," he added.

### Tydings-Miller Bill Hit As 'Hidden Ball Law'

#### Senators Assail Measure as Club Over Manufacturers

The Tydings-Miller bill, permitting manufacturers of trade-marked articles to fix retail prices in states with price-maintenance laws, is, like the Robinson-Patman act, a "hidden ball law" with its real objective masked under an "advisory" mercantile purpose," Whelan Summons, managing director of the Institute of Distribution, stated yesterday.

The bill's real aim, according to Mr. Summons, is to allow the members of the retail organizations principally involved "to use the bill, once enacted, as a club with which to force manufacturers to fix retail prices high enough to allow them a 40 per cent profit." "Depressed as they are, who can dispute the power of these retailers to get the manufacturers on the spot since this hidden ball bill is enacted?" he asked.

Mr. Summons described the Robinson-Patman act, the Tydings-Miller bill and the various state price control laws as "the three headhunts of the conspiracy measure" which may be responsible for "our last high-water mark outside plus."

FEDERAL RESERVE BANK  
OF NEW YORK

*M. Goodhead* 54

OFFICE CORRESPONDENCE

DATE February 23, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Encke

BANK OF FRANCE

Mr. Cariguel called me at 11:05 today and referred to our telephone conversation of February 11 and to our cable of the same day, dealing with the revocation or modification of the tripartite agreement. Cariguel stated that they had no objections to the suggestions made by us and that they agreed entirely. They understood our cable, he said, to be merely a clarification of the understanding concerning certain details of the monetary arrangement and that this clarification had been found necessary as a result of inquiries made by the Swiss. I replied that that was the situation.

Discussing today's market, Cariguel stated that it had been very much quieter and that so far he had to do only about £300,000, which was considerably less than for a long time. I referred to the orders which he gives us regularly and asked him to let me know whether we were handling them to his satisfaction. His reply was that we had handled them very well.

With reference to the world's securities markets, Cariguel thought that they were all, if anything, too high. The best thing the French Government could do, he continued, would be to take those steps which were necessary to attract capital back to France. That being done, he thought our problem of "hot money" would, at least in part, be solved.

RECEIVED

FEB 23 1937

TELETYPE UNIT  
LWK:KMC  
FEB 23 1937

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

February 23, 1937.

TO Secretary Morgenthau

FROM Mr. Haas 

In accordance with your telephone call of Sunday morning, February 21, 1937, I have arranged with Dr. Goldenweiser for a joint consideration of the economic problems involved in the Old Age Reserve Account. He has designated Mr. Currie and Mr. Gayer of his staff, and I have designated Russell Reagh, Government Actuary, and Henry Murphy to meet and discuss this matter. After preliminary meetings, Dr. Goldenweiser and I plan to join the discussion.

As a consequence of these joint meetings, we should know on which points the two staffs are in general agreement, and also those aspects of the problem on which our views may differ, if such be the case.

OFFICE OF  
THE SECRETARY OF THE TREASURY

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February 23, 1937.

MEMORANDUM FOR THE SECRETARY:

Herewith I hand you a copy of a further telegram from Bullitt regarding the St. Pierre matter, which was phoned me from the State Department this morning; also a copy of a draft of a reply which I furnished the State Department at their request.

GRAVES.

February 23, 1937.

Treasury Department objects to suggested modifications in definition of "alcool de traite" since these would open the way for traffic in neutral spirits or plain alcohol in bulk containers. Stop. They call attention to the fact that rum if imported in quantity into St. Pierre from Martinique would undoubtedly be for smuggling purposes, although conceding that the smuggling of rum as such from St. Pierre would probably be directed at the maritime provinces of Canada rather than at the United States where the market for this beverage is comparatively small. Stop. They feel strongly that there would be no unfairness to the people of St. Pierre if the French should restrict the importation of alcohol and alcoholic beverages to such as are bottled and packaged under trade or brand names by reputable manufacturers as contemplated by the suggested definition. Stop. They say, however, that if the French Government should insist upon an amendment of the proposed definition so as to permit the importation of rum into St. Pierre in bulk containers, this can more safely be done by preserving the definition as originally submitted and adding the following: "and not including rum when bottled or casked by reputable manufacturers and bearing justification of origin."

PARIS, February 22.

Referring Department's No. 99, February 19, 6 p.m.:

Foreign Office, at the instance of the Ministry of Colonies, suggests modification of proposed definition of "alcool de traite," as follows-- In place of "when bottled and packaged by reputable manufacturers," it suggests, "when bottled or casked by reputable manufacturers"; and in place of "and labeled as such under appropriate trade or brand names," it suggests, "and bearing justification of origin." The Foreign Office adds that certificate of origin would be issued by the French liquor exporter and visaed by the French customs authorities at the port of export. The Ministry of Foreign Affairs states that these changes in phraseology are desired to permit the importation of rum from Martinique.

I would appreciate a reply at your earliest convenience.

BULLITT.

23 February, 1937  
4 p. m.

COAST GUARD OPERATIONS IN FLOOD AREA

Coast Guard making arrangements to evacuate forces from Mississippi Valley as soon as need terminates, which is expected to take place this week. The Memphis Headquarters will probably be closed on Wednesday, leaving only one radio truck there.

- - - - -

Coast Guard force at present operating in the Mississippi flood zone numbers 19 seagoing units and 25 boats, the latter operating under the immediate direction of the DIONE at Natchez, Mississippi, where a shore office and communication center is being maintained.

- - - - -

GENERAL WATER LEVEL CONDITIONS.

Crest between Natchez and New Orleans, gradually flattening out - Natchez 58', a rise of 2/10ths foot since Saturday; New Orleans 18.7', a fall of 1/10th foot since Saturday.

lll

Tuesday  
February 23, 1937  
4:43 p.m.

Senator  
Elmer  
Thomas

- Mr. Secretary -

HMJr: I got your letter in regard to Howard.

T: Yes

HMJr: - asking about the Register of the Treasury -

T: Yes

HMJr: And I just wanted to tell you that before Jim Farley left he talked to me about that position and asked me to do nothing until he got back.

T: I see.

HMJr: And he's still away.

T: I see.

HMJr: And, until he gets back I'm not doing anything.

T: Well, Mr. Secretary, we have prepared some data in the form of - oh, some endorsements and recommendations - giving Howard's background and placed them in your hands in the event - so they can be used.

HMJr: All right.

T: And then some good time at your convenience we would like to come down, if it's open for consideration, and present Howard. He's here in town.

HMJr: Well - the other - what I'd like to suggest is that - I really think that you ought to see Farley, because he's taken a great interest in this vacancy.

T: Well, that's - that's a good suggestion then. You think it would be proper then to see him?

HMJr: I think it would, because, as I say, he's got somebody that he says he's been trying to place for four years.

T: Oh, I see.

-2-

HMJr: And he's very keen to place this man.

T: Yes, I see.

HMJr: It's somebody that goes back to the campaign of thirty-three.

T: Yes, I see. Well, then, that's a good lead and we'll take it up along that line.

HMJr: Well, thank you, Senator.

T: Then when you're ready why we'll just come down and see you for a few minutes, if it's open.

HMJr: Thank you, Senator.

T: All right then.

Tuesday  
February 23, 1937  
4:46 p.m.

Treas.

Operator: Go ahead.

HMJr: Hello

A. Harry

Moore: Hello, Mr. Secretary.

HMJr: How's Senator Moore?

M: I'm sorry to trouble you after a hard day's work.  
(Laughs)

HMJr: You haven't troubled me yet.

M: (Laughs) Thank you. How are we making out with our proposition?

HMJr: Well, the way it stands is - we're moving Baradelle.

M: Yes

HMJr: And then I'm waiting to hear from Helvering for a recommendation on a successor.

M: I see. It's up to Helvering then to - ?

HMJr: That's right.

M: I see. All right, thank you very much.

HMJr: Having made the difficult decision, I mean, on moving Baradelle, as to his successor, I'm waiting for a recommendation from Helvering and I haven't got one yet.

M: Well, that's the big thing - is the - getting the successor.

HMJr: Well, that - I'm waiting for a recommendation from Guy.

M: All right.

HMJr: How are things with you?

M: Oh, pretty good. We're bumping along.

HMJr: All right, Senator.

M: I'm sorry to trouble you.

HMJr: You haven't troubled me a bit.

M: All right. Thank you.

HMJr: Goodbye.

February 23d

I told the President that General Hugh Johnson came in to see me about import tax on copper; that I pointed out to Johnson jokingly that Senator Ashurst was both the senior Senator from Arizona, the biggest copper producing state in the Union, and also Chairman of the Judiciary Committee. I told the President that this tax expired on June 30th and how would he feel about letting it die if we could get away with it. He said he certainly would be for it because copper was one of the biggest worldwide trusts and that we ought to try to bust it up; that he felt that the price of copper in the United States of 8¢ to 12¢ was high enough.

I told the President that Congressman Murphy of Minnesota had been in to see me and left the attached document. It looks as though our friend Joe Wolfe had been selling Post Offices and I suggested that nothing be done until we could get a chance to investigate. The President agreed. (attachment marked No. 1)

I asked the President whether we should continue to let the question of Collector of Internal Revenue of Georgia rest. He said, "Yes, do nothing for the time being". (See attachment marked No. 2)

I told the President that Senator Moore had been in to see us; that we had agreed to move Baradel, Agent in Charge for New Jersey, to San Francisco and that Senator Moore was willing to leave it entirely to us to choose his successor on a merit basis. (See attachment No. 3)

I spoke to him about his suggestion of Sally Jaymes of Springfield, Ohio, for Register of the Treasury. I told him that I had told Senator Bulkley that I had promised Jim Farley to do nothing until Farley returned; that Farley wanted me very much to take a certain doctor from the State of Montana and give him this job. The President said, "Remind Jim Farley to remind the doctor that before we can give anything to Montana - what about Senator Wheeler." (See attachment No. 4)

I told the President about my conversation with Senator Wheeler who was worried about silver. The President was very much interested. (See attachment No. 5 - H.M. Jr.'s conversation with Senator Wheeler).

- 2 -

When I came in for lunch McIntyre came in and told the President that the ex-Governor of Florida, Sholtz was in to see him and wanted to know how the President feels about Sholtz opening a law office in Washington. The President said it was no concern of his and jokingly said, "Let him see the Secretary of the Treasury". Then several sentences passed between the President and McIntyre which tipped me off that McIntyre knew that Sholtz was having income tax troubles. I think McIntyre was trying to find out just how serious they were. McIntyre said, "I have a lunch date with Sholtz and I am just on the fence as to whether I should or should not lunch with him". The President said two or three times, "The matter does not concern me. It is in the hands of the Secretary of the Treasury". Finally I said, "Why no it is not Mr. President, we have concluded our work and turned the case over to the Attorney General for prosecution. " I will be interested in seeing what happens to our case against ex-Governor Sholtz from now on.

I briefly sketched my plan for financing to the President who was not particularly interested and simply nodded his head as I went along and outlined it to him.

The President asked me what we were doing about "hot money". I told him about our conference with Hull Thursday afternoon and that Hull had taken the matter under advisement; that I had found that Hull was opposed to our doing anything along the lines that we were working on as he felt it might interfere with his trade treaties. The President said, "That my advice to you to see Hull was good." I said, "It was excellent". He said, "The person from the State Department who had gotten in touch with him on this matter was Judge Moore.

STATE OF MINNESOTA

ss

COUNTY OF JACKSON

F. J. Stenzel being duly sworn on oath deposes and says that he is a resident of the township of Weamer, village of Heron Lake, county of Jackson and state of Minnesota, that he was a candidate for the post office at Heron Lake, Minnesota; that he is a member of the Jackson Democratic county committee; that in the winter of 1933 he called on Joseph Wolf, National Committeeman for the State of Minnesota and talked with him with reference to the said post office. That he called on Joseph Wolf on two or three different occasions. That Mr. Wolf informed him on one of these occasions that he would have to go to Washington to have the post office at Heron Lake declared vacant so that he could have Mr. Stenzel appointed as acting postmaster. That Wolf then told affiant that he would have to have some money to pay his expenses. That he stated that \$250.00 was necessary. That he then requested this affiant to make the money-orders he sent in payable direct to him so that he could use it how he saw fit. That this affiant went home and arranged for the \$250.00 to be sent to Joseph Wolf as per his request:

That prior to this meeting and the day following the Jeffersonian banquet at St. Paul, this affiant in company with other members of the committee at Jackson, who were applicants for post offices in Heron Lake, Jackson and Lakefield, in Jackson county, viz., Mrs. Bernice Kenevan who was applicant for the post office at Lakefield; J. W. Malone who was applicant for the post office at Jackson, all called on Mr. Wolf with reference to these post offices and that Mr. Wolf after listening to them stated that the finances of the Democratic party were in very bad shape; that one of the committee said: "Well, we are willing to contribute towards the deficiency of the party. How much do you want?" That Mr. Wolf stated that they were paying in different amounts, some \$250.00 and some more, and he stated: "If you folks will send in some money I will see that you get the post offices." That Mr. Wolf further stated: "I owe a personal note of \$9000.00 for money which I had to borrow on my own personal note and I have to get a hold of some money. When you send this money in, send it to me direct, so I won't have to account for it to the National body. I want this money so I can use it where I want it."

That in compliance with the request of Joseph Wolf \$250.00 was sent in to the said Joseph Wolf; that this affiant had repeatedly called on Joseph Wolf with reference to the Post Office, which the said Joseph Wolf promised would be declared vacant July 1, 1933 but that said post office has not been declared vacant.

That this affiant has always been a good loyal Democrat; has supported the party and contributed generously towards its campaign fund and that this affiant makes this affidavit for the purpose of informing the National Democratic committee as to the manner in which Post Offices have been disposed of in the State of Minnesota; further affiant saith not.

F. J. Stenzel

Subscribed and sworn to before this  
11th day of July, 1934.

Julia Meurer

NOTARY PUBLIC

Julia Meurer  
Notary Public Blue Earth County, Minn.  
My commission expires Aug. 29, 1940 (SEAL)

## COUNTY OF JACKSON

John Wilhelm being first duly sworn on oath deposes and says that he is a resident of Jackson, Minnesota, and is treasurer of the Jackson county Democratic committee; that on the 7th day of June, 1933 he accompanied Mr. F. J. Stenzel of Heron Lake on a visit to Joseph Wolf, National Committeeman for Minnesota at the Lowry Hotel, St. Paul, and that while there he heard conversation between Joseph Wolf and Mr. Stenzel and took part in the conversation himself. That at that time Mr. Stenzel was an applicant for the Post Office at Heron Lake and that Joseph Wolf said: "I need money badly and would like to get it by the 1st of July." That Mr. F. J. Stenzel said: "How much?" That Joe Wolf replied: "Two hundred fifty dollars." That Mr. Stenzel then said: "Well, we can pay you that amount of money, but we must have some assurance for it, so that when I get home the fellows won't laugh at me." Mr. Wolf then asked Mr. Stenzel what he wanted and Mr. Stenzel told him he wanted what he applied for, and Mr. Wolf made answer and said: "Well, I'll have you in the post office at Heron Lake by July 1, 1935 as acting Postmaster." Mr. Wolf stated that he should go to Washington and had no money to go with. Mr. Stenzel said: "Well, I will see that you have the money here as soon as I get home." That Mr. Wolf then said: "Well, you do that and everything will be taken care of by the 1st of the month."

John L. Wilhelm

Subscribed and sworn to before  
me this 10th day of July, 1934.

A. J. Malek  
Justice of the Peace



WALTER F. GEORGE, GA., CHAIRMAN

DANIEL O. HASTINGS, DEL.  
WARREN H. AUSTIN, VT.  
L. J. DICKINSON, IOWA  
HIRAM W. JOHNSON, CALIF.  
GERALD P. NYE, N. DAK.

## United States Senate

COMMITTEE ON  
PRIVILEGES AND ELECTIONS

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JAMES D. SMITH, S. C.  
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LESLIE M. ROSS, N.Y.  
JOHN L. BUCHANAN, TENN.  
WILLIAM H. BRADEN, N. H.  
JAMES H. BRADY, WIS.  
WALTER A. HUSTON, N. MEX.  
WILLIAM H. HAYDEN, ILL.

CHARLOTTE B. KENNEDY, CLERK

2.

hesitate to say that he is the best man that I can  
recommend in Georgia for the position.

Sincerely yours,

*Walter F. George*

THE WHITE HOUSE  
WASHINGTON

70

#3

1/7

1 - Sen. Moore was in and wanted to know "whether the President got in touch with Sec. Morgenthau on the matter he (Sen. Moore) and Mayor Hague were in to see the President about.

"The President was going to get in touch with Sec. M. in connection with the Hogan matter at Newark."

Vincent M. Hogan, originally appointed from Kansas, seventeen years in Internal Revenue Department.

045 M.

Mr. Baridell is now Agent in Charge; appointed under Coolidge Administration. Republican. Lives in Brooklyn. Was transferred from lower New York to Newark Office.

Title of position is Agent in Charge of New Jersey District, Internal Revenue Department, Newark, N. J.



TREASURY DEPARTMENT  
WASHINGTON

OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO  
COMMISSIONER OF INTERNAL REVENUE  
AND REFER TO

January 12, 1937.

MEMORANDUM FOR THE SECRETARY:

Joseph R. Baradel is Internal Revenue Agent in Charge at Newark, New Jersey. He was born in New York City, is 46 years of age, married, was appointed to the Bureau of Internal Revenue as an Auditor in January, 1919, and has served continuously in the Bureau since that date. Prior to his appointment, he was employed by the Public Service Commission of New York in the Bureau of Statistics and Accounts for a period of 11 years.

Since 1919 Mr. Baradel has been promoted through various positions having to do with accounting, succeeding to the position of Internal Revenue Agent in Charge at Brooklyn, New York, on November 16, 1928. He was transferred to Revenue Agent in Charge of the Second New York Division on September 1, 1932, and on April 1, 1935, was transferred to the same position at Newark, New Jersey, which position he now holds.

During the two or three years immediately preceding his transfer to Newark, Mr. Baradel was the target for considerable complaint of an indefinite nature, particularly by anonymous letter writers. The position which he held was one of the most difficult in the Service from this point of view. He had supervision of a group of officers who were inclined to be dissatisfied and critical. Numerous inquiries were made concerning the allegations against Mr. Baradel, but nothing was ever learned to justify a conclusion that he was conducting himself in an improper way. Since his transfer to the Newark Division, I have heard no complaints against him.

I have known Mr. Baradel officially for a number of years and have confidence in his integrity and ability to handle all classes of income tax cases. He is recognized as a good man on technical matters and it is my thought that his ability runs rather along this line than as an administrative officer.

-2-

Memo. for the Secretary.

Vincent M. Hogan is 44 years of age, was born in Iowa and listed Kansas as his legal residence at the time of his entrance in the Service. He was appointed in March, 1918, as a Narcotic officer at Wichita, Kansas, but left on June 1 of the same year to enter the army. He reentered the service in September, 1919, as a Deputy Collector in Kansas, in which position he remained until May, 1923, when he became an Internal Revenue Agent assigned to work on sales and miscellaneous tax work. In 1926 he took an examination to qualify on income tax work and in November of that year was appointed an agent with assignment to that type of work at New Orleans, Louisiana.

After a short period in New Orleans, Mr. Hogan served in the Dallas, Texas Division, and in November, 1928, was transferred to the Newark, New Jersey Division, where he has since been employed. He was promoted through the various grades until June 1, 1936, when he received his present salary of \$4800 per annum. He is at this time employed under the direction of Revenue Agent in Charge Baradel at Newark, New Jersey.

Agent Hogan was assigned at various times to work in co-operation with special agents of this Unit on tax fraud cases. I have communicated with Special Agent in Charge McQuillan at New York, and have received the attached report of Special Agent Baldwin, with whom Mr. Hogan was principally employed in the investigation of certain cases of notorious gangsters in New York City, among them being Waxey Gordon, Max Hassell and Max Greenberg. During the course of the investigation in the Waxey Gordon case, Hogan inadvertently mentioned to Special Agent Baldwin that he had recently seen Waxey Gordon. As none of the investigating officers had ever admitted meeting or seeing Gordon, Hogan was questioned concerning the matter. He then stated that upon request of one Gessler, an accountant for the Union City Brewing Company, he went with him to a beer drop in Hoboken, where Gessler introduced him (Hogan) to one Blackie Cohen, Waxey Gordon's lieutenant, on which occasion Waxey Gordon was present. When Agent Hogan was questioned as to why he had not gotten in touch with Special Agent Baldwin or the Internal Revenue Agent in Charge, he stated he did not know. Hogan was questioned on a number of occasions concerning this instance prior to the trial of the Waxey Gordon case, and

-3-

Memo. for the Secretary.

although he gave the District Attorney the same information he had given to Special Agent Baldwin, upon cross examination during the course of the trial in November, 1933, it was disclosed that Hogan had visited Gordon on two occasions and had discussed his income tax affairs with him. On April 12, 1933, when Max Hassel and Max Greenberg, associates of Waxey Gordon, were slain in Gordon's office at Elizabeth, New Jersey, there was found on the body of Greenberg a piece of paper containing Revenue Agent Hogan's name and telephone number. It was significant that Hogan's number was not at that time in the telephone book.

Special Agent Baldwin was also informed by attorneys Culhane and Dillon during the course of an investigation of the Yonkers Brewing case, that Revenue Agent Hogan had contacted his client and had accepted money from him. Agent Hogan denied this charge, and while there is no definite evidence to prove the charge, there are certain circumstances indicating that he had at least been guilty of indiscretion.

There are other items of interest with respect to Mr. Hogan in the attached report of Mr. Baldwin.

Aside from the above, I am informed by several of the most reliable agents of this Unit that it is their opinion Agent Hogan is not above the average agent in ability.

Enc.



TREASURY DEPARTMENT  
INTERNAL REVENUE SERVICE

INTELLIGENCE UNIT

New York  
(Name of Division)

New York, N. Y., Jan. 11, 1937.

EAB:lac

MEMORANDUM FOR:

Mr. Hugh McQuillan,  
Special Agent in Charge,  
New York, N. Y.



In re: Vincent M. Hogan,  
Internal Revenue Agent  
Newark Division,  
Newark, New Jersey.

Pursuant to your instructions with reference to the above-named Revenue Agent, the following information is submitted by me:

In connection with the investigation of Irving Wexler, alias Waxey Gordon, (SI-9740-F), Revenue Agent Hogan and I visited the Second Bank & Trust Company, Hoboken, N. J., on or about January 23, 1931, for the purpose of making inquiry as to the bank account operated by one James Henderson. Information had been received by us that James Henderson was an alias used by Waxey Gordon and that this was one of Gordon's beer accounts. Revenue Agent Hogan and I went to the Second Bank & Trust Company on the above-mentioned date, upon your instructions, and examined this account; we left the bank and made no return to it thereafter.

About four months later, Revenue Agent Hogan inadvertently mentioned to me that he had seen Waxey Gordon. As none of the investigating agents had ever admitted meeting or seeing Gordon, I immediately questioned Hogan as to when he had seen Gordon. His explanation was as follows:

He stated that on the day following our visit to the Second Bank & Trust Company, Hoboken, he had been called on the phone by one Gessler, whom he identified as the accountant for the Union City Brewing Company. Gessler advised him, he said, that he knew of our visit to the Second Bank & Trust Company on the day before, and that he wanted to speak to Hogan with reference

to the Henderson account. The Revenue Agent further advised that he met Accountant Gessler at the Lackawanna entrance to the Hudson & Manhattan tubes at Hoboken, and went with him to a beer drop in Hoboken where Gessler introduced him to Blackie Cohen, Waxey Gordon's lieutenant. He said that Waxey Gordon was present on this occasion and that Blackie Cohen introduced him (Hogan) to Waxey Gordon.

When Revenue Agent Hogan was asked by me why he had not gotten in touch with me before making this visit, or Internal Revenue Agent in Charge Jens P. Jenson, his explanation was that he didn't know why he had not done so. He gave the same explanation when I asked him why he had withheld for such a length of time his meeting with Waxey Gordon and the circumstances attending same.

Prior to the trial of Waxey Gordon, I communicated this information to Special Agent Walter P. Murphy and I know that Agent Murphy, District Attorneys Dewey, Tarbell and Sharpe, questioned Hogan on a number of occasions about this incident and that he then appeared before the Grand Jury. Although he gave the District Attorneys and Special Agent Murphy only the same information he had given me, cross-examination of Agent Hogan during the course of the Gordon trial, in November, 1933, developed from him the further fact that he had visited Gordon on two occasions and had discussed his income tax affairs with him.

On April 12, 1933, Max Hassell and Max Greenberg, bootlegger associates of Waxey Gordon, were slain in Waxey Gordon's office on the 8th floor of the Elizabeth Carteret Hotel, Elizabeth, N. J. There was found on the body of Max Greenberg, in his vest pocket, a piece of paper containing Revenue Agent Hogan's name and his telephone number. It is significant to note that Revenue Agent Hogan had moved and that his telephone number at this time was not carried in any telephone directory.

During the investigation of the Waxey Gordon case, in the Spring of 1931, Revenue Agents James Connolly, Jonas Rutt, Hogan and I were also making an income tax investigation of the Yonkers Brewery, which establishment, it subsequently developed, was owned by Patrick F. Dillon, alias "Frenchy Dillon" and James Culhane. During this investigation, we agents had discussed Dillon and Culhane and it was understood among us that none of the four of us had ever seen Culhane or Dillon or even knew what they looked like.

After this Yonkers Brewery investigation had been pending some time, Moses Polakoff, the attorney representing Messrs. Culhane and Dillon, advised me confidentially that Revenue Agents Connolly and Hogan had met his clients on the outside and had taken money from them, advising his clients that they would see to it in writing their report that no fraud case would be developed against them. With Mr. Polakoff's information in mind, I kept Agent Hogan's movements under closer observation. Some time thereafter, I sent a letter to Mr. Dillon to appear at this office on a certain afternoon. On the prior afternoon, Revenue Agent Hogan was working with Revenue Agent Rutt at the Steneck Trust Company in Hoboken, N. J. On the morning of the day in question, Revenue Agent Hogan advised me that he was going to the office of Down & Heffernan, 250 West 57th St., New York City, as the result of a telephone call that he had received from Mr. Down. Knowing that Messrs. Down & Heffernan were attorneys who had represented Culhane and Dillon in a number of bootlegging cases, I insisted on accompanying Revenue Agent Hogan to Mr. Down's office, although he was reluctant to have me go with him.

When Revenue Agent Hogan and I arrived in the lawyer's office, we found Mr. Down present with a client who later proved to be Mr. Dillon. Mr. Down, upon learning of my identity, became greatly disturbed and wanted to know from me why Revenue Agent Hogan had insisted upon seeing his client (Dillon) prior to Mr. Dillon's appearance before me that afternoon. Mr. Down stated that Mr. Hogan had contacted Mr. Dillon and told him that I was going to ask him a lot of questions about his income tax affairs and that he first wanted to see him in order to prime him as to the nature of my questions. When Revenue Agent Hogan denied this charge, Mr. Down stated that he had had a telephone conversation on the afternoon before with Revenue Agent Hogan, when he learned that Hogan wanted to see Mr. Dillon, and had arranged with Hogan that Mr. Dillon would be present in his (Down's) office on the morning of the next day. In confirmation of his charge, Mr. Down advised me that when Hogan called him up on this matter he told him that he was calling from a bank building over in Hoboken, N. J. At the time, I verified with Revenue Agent Rutt that while he and Hogan were working in the Steneck Trust Company at Hoboken, N. J. Revenue Agent Hogan left him for the purpose, as he stated, to make a telephone call.

During the discussion in Mr. Down's office, I asked Mr. Dillon if he knew Mr. Hogan. He said that he did, but Mr. Hogan denied this. Mr. Dillon then stated that he had first met Mr. Hogan when the Revenue Agent was making an investigation several

years before of Frank Dunne, a New Jersey bootlegger, who had been slain in a gang war. Mr. Dillon advised me that he had received my letter and had intended to come to my office that same afternoon, but that Mr. Hogan had called him up and had insisted that he should first see him (Hogan) before he (Dillon) appeared in my office. He said that he had instructed Mr. Hogan to call Mr. Down and that the appointment had been made for him to meet Hogan in Mr. Down's office.

After this discussion in Mr. Down's office was concluded by us, we returned to Room 1, Old Post Office Building, and I reported the incident to you in the presence of Revenue Agent Hogan.

Several days later, Mr. Ireby came to New York and at your request I again discussed this incident with him.

Shortly thereafter, and as a result of this incident, Revenue Agent Hogan was returned to his Division at Newark, New Jersey.

Edwin A. Baldwin,  
Special Agent.

DMJ

THE WHITE HOUSE  
WASHINGTON

Sally Jaynes of  
Springfield, Mass -  
Colored man for  
Pres. of Treasury ?

LJR

Tuesday  
February 23, 1937  
11:19 a.m.

# 85

HMJr: Hello  
Treas.  
Operator: Yes

HMJr: Yes

T.O.: Shall I put him on?

HMJr: Please

T.O.: All right, go ahead.

Burton  
Wheeler: Hello

HMJr: Hello, Burt

W: Hello, Henry

HMJr: How are you?

W: I didn't know whether you'd speak to me this morning or not.

HMJr: Well, what - have you said something nice about me?

W: (Laughs) No, no, not about you, Henry. I did about - I mean about this court victory.

HMJr: Oh, I'm in the Treasury.

W: I know that. Say, Henry -

HMJr: Yes

W: I have a letter from a man up my State saying that there is a report out there that's quite current to the effect that your - that the Administration is going to seek to repeal the Silver Purchase Act. I wrote him a letter in which I said to him that I didn't think there was anything to it. But I did think I'd better call you up because I don't want to make a liar out of myself.

HMJr: Well, Burt, you don't think we'd make silver in the Supreme Court, do you?

W: No (Laughs), no -

HMJr: What!?

W: No (Laughs)

HMJr: What?

W: No (Laughs)

HMJr: Well, I don't know. I mean you start by the Supreme Court and then you swing over to silver.

W: Oh, well, I was just joking about the Supreme Court.

HMJr: Are you sure?

W: Yes, I was just joking about the Supreme Court.

HMJr: Well, -

W: I was kidding about that.

HMJr: Oh -

W: But really, seriously, about the other thing, is - have you anything in mind or - ?

HMJr: The only thing - that all this stuff is in the paper.

W: Yes

HMJr: When I appeared before poor old Buck -

W: Yes

HMJr: - in the House

W: Yes

HMJr: He asked me a lot of questions.

W: Yes

HMJr: And Buck was very - wasn't very much opposed to it and I answered him as frankly as I could -

W: Yes

HMJr: And since then my mind - I told some people the other day, we've got too much to do down here and my mind is not on silver.

W: Yes

HMJr: And, perfectly frankly, I haven't discussed it with the President in six months.

W: Yes - well -

HMJr: And - you answered your constituent truthfully.

W: Yes, all right. Well, that's all I wanted -

HMJr: How's that?

W: That's all right.

HMJr: I mean, I don't know when it will come up. But I can say that up to twenty minutes past eleven on Tuesday, February twenty-third I have done nothing on silver and haven't been thinking about it.

W: Yes, well of course, Key Pittman and I will fight hell out of you if you try to.

HMJr: What?

W: I say, Key Pittman and I will have to scrap hell out of you if you seek to do anything of the kind.

HMJr: Well, I'll have to go around and see Senator King and have him rescue me.

W: (Laughs) All right.

HMJr: What?

W: All right. Yes

HMJr: Politics make strange bed fellows, you know.

W: That's right, Henry.

HMJr: All right, Burt - Now, I - that's the answer and I - if I was ever going to do anything -

W: Yes

HMJr: I'd be man enough -

W: Yes

-4-

HMJr: - to let Key Pittman know and ask him to call a meeting and I'd tell him just what I was going to do.

W: Yes

HMJr: See?

W: Absolutely

HMJr: How's that?

W: All right, that's fine, Henry.

HMJr: O. K., thank you.

February 23, 1937

My dear Mr. Ryan:

I beg to acknowledge receipt of your letter of today.

I am taking all of the documents which you have given me and am asking that a complete investigation be made.

Thanking you for bringing this matter to my attention, I remain

Sincerely yours,

Henry Morgenthau, Jr.

Honorable Elmer J. Ryan,  
House of Representatives.

*Joe Wolfe matter.*



TREASURY DEPARTMENT

WASHINGTON

February 23, 1937.

MEMORANDUM FOR THE SECRETARY:

I received the following telegram from Hanks at Seattle this morning:

"As a result of combined evidence of Narcotic and Customs officers working together Portland, LEW KIM YUEN, BURTON LEE, YOUNG KOW SHEK, and HIN KAN indicted Federal Grand Jury nine counts for conspiracy violate narcotic laws. Bond for each twenty-five thousand. BURTON LEE under arrest. LEW KIM YUEN who was under five thousand bond for Grand Jury action can not be found at present but expect locate soon. Consider this case very important as LEW KIM YUEN largest smuggler Pacific Coast."

These are the first important indictments obtained as the result of our special investigations on the West Coast. I am confident that others will follow.

GRAVES.

*Confidential*

Senator Nye  
February 23, 1937

Nye telephoned Secretary asking for appointment to discuss patronage matter.

February 24, 1937

Nye came in to see Secretary and asked position for Earle A. Bates, one of his constituents.

February 25, 1937

Senator Nye's letter to Secretary, submitting background of Earle A. Bates. *p. 22\**

March 3, 1937

HM, Jr's telephone conversation with Vice President Garner asking his advice about Senator Nye's request. Garner said Nye wasn't worth anything, but \$1200 "is little enough to get rid" of any Senator for 30 days.

March 4, 1937

HM, Jr telephoned Senator Nye and told him he would give Bates a 30-day appointment.

March 4, 1937

Memo from McReynolds' office that Bates went to work in the Disbursing Office this morning.

July 1, 1937

Senator Nye telephoned HM, Jr and asked promotion for Earle Bates. HM, Jr admitted slipping up on retention of Bates as his appointment was only for 30 days. HM, Jr promised to look into matter of promotion.

Tuesday  
February 23, 1937  
5:28 p.m.

87

HMJr: - Gaston to come in.

Treas.

Operator: All right.

T.O.: Go ahead.

HMJr: Hello

Senator G.P.

Nye: Hello

HMJr: Yes

N: Mr. Secretary

HMJr: Morgenthau, right -

N: Yes, this is Nye

HMJr: Hello -

N: What's your - what's your convenience in the morning,  
are you going to be at your office?

HMJr: Sure -

N: What time?

HMJr: Now let me see, I'm all mixed up on my I've  
got - well, I've got people coming in - from the  
Hill - different people. I'm free at ten-thirty.

N: Good!

HMJr: Could you give me an inkling of what's on your mind?

N: Well, I want to talk to you a little bit about that  
matter of foreign ownership of securities here.

HMJr: Oh yes

N: And then I'm going to do something with you that I've  
never done before; I'm going to bother you about a  
single patronage matter.

HMJr: I see.

N: It's one that I've taken up with others in the depart-  
ment.

HMJr: Oh yes. Well, is ten-thirty all right?

N: That's fine.

HMJr: I'll be delighted to - -

N: Thank you a whole lot.

HMJr: . Thank you.

F 89<sup>n</sup>

FINANCING GROUP

February 23, 1937  
4:00 P.M.

- Present: Mr. Taylor
- Mr. Lochhead
- Mr. Bell
- Mr. Murphy
- Mr. Seltzer
- Mr. Upham
- Mr. Haas
- Mr. Harris

H.M.Jr: Well, the only new memorandum I've got is the one that George gave me about fifteen minutes ago. I don't know how many copies you've got, George.

Haas: I think Wayne has a copy, and Cy, and Dan has one.

Murphy: I have a rather poor carbon that I can donate to anyone.

Haas: I have one in my pocket.

H.M.Jr: Well, talking in my usual frank manner, the way I feel is this: that at this particular stage - and if anybody disagrees with me, even those who didn't have anything to do with writing the memorandum, see - I don't feel that March 15 is the time to try out a seven-seventeen year or something new. The longer I am here the more conservative I get. I don't say that the time isn't coming when we may.

But the way I feel - then you fellows can all shoot at me, see, all of you - is this: No question that this is one of the - this has been one of the most difficult decisions to make from the standpoint of what is the statesmanlike thing to do. And we have squeaked along without any money up to now. I feel we ought to go ahead with the three hundred million dollars worth of bills into June 15 and 16 and 17, and let them pay them from the War Loan account. I don't think I'll argue that. There's going to be some of them for War Loan account. And I think if you're going to do it from the War Loan account, do them all. George was arguing doing them half the regular way and the other half the War Loan account.

Haas: Just those around the fifteenth.

- 2 -

Bell: I think you ought to let your money market, your income taxes, take that up.

H.M.Jr: Well, when we started out with this group of three hundred million....

Bell: What I'd like to do is make the third and the tenth payable in cash and then the seventeenth and twenty-fourth payable in War Loans.

Haas: That's about the same.

H.M.Jr: That's what he (Haas) said.

Bell: That is when some of your income taxes come in, and they - they may not come in in that period, and then you can decide later what to do.

H.M.Jr: You mean the first one you do on March third would be...

Bell: Cash. Otherwise you call on the War Loan account for money the first ten days or you'd be putting into the War Loan account the issues of Treasury bills and drawing out the old balances.

H.M.Jr: I see. Well, I don't know how Burgess will feel on that. We can ask him tomorrow whether he wants us to do the first one, then decide each one.

Then, when it comes to what we do with the April, again my inclination is to offer them the last two and a half that we offered, but making them pay a premium for it, see? How much I don't know. We don't have - I mean I've never done it that way before. I'd like to try it. But that was certainly well-distributed. That would take care of us on along until the end of May, wouldn't it?

Bell: Yes, sir.

H.M.Jr: And then on the 15th of June we can take a nice good wad of new money. The Federal Reserve's regulation will be into effect and that will be behind us. June's always been a good time to finance. And we want to get enough money to last us through to

- 3 -

December. I don't like to - I'm not very anxious to take new money in September. And then by that time the bulk of the legislation will be behind us and we'll know much better what they're going to do about Social Security, whether they're going to do anything or whether it's going to stay the way it is.

And I don't know - I don't see what's the matter with it. It will fit in all right. I don't want to sell them a note because the note market is sloppy. I could sell a note if I wanted to in June.

And that's about the way I feel. Now, it's a field day. Anybody can jump on me. I mean nothing has jelled yet, and won't be until noon tomorrow. But by noon tomorrow I'm going to make up my mind.

Haas: You have to make up your mind not necessarily on the issues.

H.M.Jr: Only on the bills.

Haas: Well, I think...

H.M.Jr: Only on the bills tomorrow.

Haas: Well, I think our shop would line up the way you want to handle it.

H.M.Jr: The only decision I've got to make tomorrow is on the bills. I think I ought to make up my mind on three things tomorrow. First, that we are going to sell bills. Two, are we or are we not going to call the April and pay it off on the 15th of March? And then I think we also ought to decide whether we are or are not going to take any extra cash. I think all three of those decisions should be made tomorrow.

Then, as to what - the only thing we don't have to decide tomorrow is what kind of a security are we going to offer these fellows in exchange for the April note. I think we'd help the market a lot if on Thursday morning I could say these three things: One, we are going to sell 300 million

dollars worth of bills. Two, we are going to call the April note. Three, we are not going to ask for any more cash.

Then they've got that - then the market has a week to settle down and adjust itself to that. Then the following week we decide what we're going to offer in exchange. But I do think that by noon tomorrow - I think the market - I'd like to give the market that extra week, because that brings it around to the following week and we'd have to make up our mind what we're going to offer. What?

Bell: Yes, sir.

Taylor: That is, if you are calling April bills - I mean if you are calling April notes.

H.M.Jr: Yes. I mean there are three things we ought to make up our minds on by noon tomorrow: Bills. Will we or won't we call the April notes? Will we or won't we ask for any additional cash?

Taylor: Well, there's no disagreement about the bills, is there?

H.M.Jr: Anybody disagree on the bills? Harris, you're in here. Talk up, don't be bashful.

Harris: All right.

Lochhead: I was going to say I think the bills are tied in with that other program. I'd hate to see an announcement of three hundred millions of bills go out unless you did say what you were going to do. I mean I understand this is tied together.

Taylor: Yes, but regardless of what the answer to the others may be, I think the three hundred million bills maturing in June is tied into all of them, isn't it?

Lochhead: Yes, we agree that the bills - I think we agree on the bills.

H.M.Jr: I think those three things are pretty well tied up together. Those three: Bills. Yes or no on the

- 5 -

April note. Yes or no on additional cash. I think that's almost a joint decision.

As I say, you've got from now until noon tomorrow. But I thought I'd get my own gang together tonight and tell you how I was feeling and let you punch holes in me.

Seltzer: The bond market's been doing well and it can improve a whole lot without your being able to do any better in a bond issue in June. It might be worse.

Harris: I might say that since the meeting last Wednesday long bonds have made gains, whereas short bonds have been very steady; but the Federal Reserve Bank have been selling out some of their April notes, and in replacement capacity - it runs somewhere between ten and fifteen millions - they have taken up short bonds out of the market, which has helped. Those bonds are not floating in the market. Some short bonds have been pretty steady in the last week.

H.M.Jr: They've been selling the April notes and taking....

Harris: Taking short bonds. For a while they were selling out some two and a halves and buying longer bonds, but now they are selling these April notes and buying these shorter bonds.

H.M.Jr: Have you (Upham) got anything to contribute?

Upham: No. It seems to me you've covered it pretty well. I was very much intrigued by this idea of a seven-seventeen year bond. But of course, being a conservative, I wouldn't be in favor of it too much.

H.M.Jr: Wayne?

Taylor: This morning I didn't know about George's memorandum, and I was going over Dan's memorandum of April 8 - I mean of February 8. I came to almost an identical conclusion.

H.M.Jr: With....

Taylor: With George. Only I wouldn't talk about a seven.

I wouldn't talk about anything longer than a five, and I would talk in terms of all future refunding, in a long term bond with an early call date, every time you had a chance to do it. I think the market will take it and it is a problem that you have to face, because according to Dan's figures and according to the other figures here, why, you've got a definite shortage, all other things being equal, of around six or seven billion dollars.

H.M.Jr: Where? ..

Taylor: In what you might be able to take out of the market.

H.M.Jr: I mean over what period?

Taylor: Over the period indicated in Dan's memorandum.

Bell: That's about thirteen years.

H.M.Jr: What?

Bell: Over a period of about thirteen years.

H.M.Jr: I mean from when to when?

Bell: '37 to about '50, isn't it?

H.M.Jr: Well, this bond I'm talking about is....

Haas: '49-'54.

H.M.Jr: '49-'54. That's - one year comes in that period.

Taylor: But you've got these technical shortages which appear first in 1942, then in '43.

H.M.Jr: Well, I think from a straight technical argument they are on safe ground; they are on safe ground. But I think that too many - I mean if I just had myself to consider - I mean the Treasury - I'd go full steam ahead. But why take any unnecessary chances with the whole country watching this thing? And if it goes wrong why should we be the goat?

Taylor: I don't think it can go wrong.

H.M.Jr: Well, certainly another five hundred million thrown into '49-'54 - that's a good period, isn't it?

Seltzer: Un-huh.

H.M.Jr: What?

Seltzer: Well, the '54 is your limit.

Harris: '53.

H.M.Jr: Was it '49-'53?

Harris: (Nods yes)

H.M.Jr: Throwing another five hundred million into '49-'53 is throwing it into the right time, isn't it?

Seltzer: Yes.

H.M.Jr: And that's all I'm proposing to do. What you want me to do is throw in some more stuff from '42 to '50. But '49-'53 is a good period to have it.

Seltzer: One of these days, though, you'll have to come around to something like this: That is, you can't go on having your maturities, your first call date, that far removed.

Haas: You can do it this time.

Seltzer: You can do it this time, and the question was one whether this isn't a good time to try this other one, when you are raising three hundred million new money.

H.M.Jr: Supposing we don't raise any new money and we are taking about an eight hundred million dollar or billion dollar issue in June. Then I'll try some of your trick stuff, see? In June. With a nice clean issue, billion dollars, in June.

Taylor: The way to try it is on the little one.

H.M.Jr: What?

Taylor: The way to try it is on the little one.

- H.M.Jr: No, there's too much confusion. There's too much confusion, cross currents. Things have changed. I've never seen the bonds and the notes and the things shift - really shift so much as they have lately.
- Harris: It's a very nervous market, although the prices don't indicate it so much. Purchase of one million can have a great effect on the market. The dealers' portfolios are very low. They don't know what to do, and they don't know whether to take them or sell short or buy or what.
- Seltzer: Of course, the chief reason their portfolios are low is it is just before a financing.
- Harris: No, it's been that way for some time.
- H.M.Jr: You fellows - unfortunately I've got to let my sixth sense influence me, and when I'm nervous I don't want to do anything. I mean unfortunately I've been right - I mean it isn't unfortunately. I've developed over three years a sense on this thing, see, because I've had to carry it more or less alone, and the records will show, going back over the three years, time and again I've stood by myself. Now, I just don't feel comfortable at this time, I mean. What?
- Haas: It's one of those decisions - whether you do it or don't do it, it's a very close thing.
- H.M.Jr: Now, George, one thing that you've got - and if you don't mind, you boys have entirely left it out - and that is again we are in that period where commercial issues are going very slow and the shelves of the financial houses handling private issues are loaded. In other words, the private issues are sticking. Now, you've left that out entirely, and you can't overlook that, George. And the last issues - how long now on the private issues?
- Haas: Oh, since that reserve thing they started to go down.
- H.M.Jr: They're sticking, and whenever that's happened I

consider that a very important danger signal.

Haas: Well, what I was about to say, Mr. Secretary, is that there is Wayne's argument and so forth for doing it: you've got a small issue. On the other hand, you have this that you have mentioned, this uncertainty in the market. You have a narrow and nervous market. But nothing will happen much one way or another, which way you decide this thing, I think. And if something should happen in the market, there would be a tendency to say, "If the Treasury Department had financed regular, that might not have happened." I mean you might have that. So the real safe play would be to follow your own hunch and be regular at this time, probably.

H.M.Jr: I'll put it another way. If I follow the plan that I suggested at the opening, nobody can say, can they, that that isn't a sensible way of financing?

Haas: No.

H.M.Jr: I mean can anybody criticize it? If I'd add another five hundred million to the two and a halves '49-'53 and sell three hundred million dollars worth of bills, can anybody say that that isn't a sensible and sane way of doing it?

Murphy: I for one remain intransigent. I think you'd be open to grave criticism, perhaps not on the basis of the financial news of next month, but when the retrospect of your administration was being cast ten years from now. If the contingencies which were recounted in our memorandum should develop, and I have no way of knowing whether they will or will not develop, you will be expected to have foreseen - everybody is always expected to have foreseen what happened. And I can easily imagine, if I may be permitted to say so, that the financing recounted in retrospect for the next forty years will reflect such policy in American finance as shortsighted.

H.M.Jr: Well, I'm willing to take that chance.

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Murphy: I hope you'll pardon my saying....

H.M.Jr: I asked you. I'm willing to take that as against putting out my neck unnecessarily at this time to do what I call a trick financing - a trick piece of financing.

Taylor: It is the most orthodox type of financing in the world - is that type of financing.

H.M.Jr: Well, I'll make anybody in this room a bet, and I'll give them odds of three to one, that there won't be a single man in a Government bond house - if you put this up to him, that he'll say go ahead and do it now.

Taylor: Wouldn't that be true any time you asked him?

H.M.Jr: I don't know. Now, I don't know.

Murphy: "ell, don't you think, Mr. Secretary...

Taylor: I mean long term, non-callable issues just lock you in.

H.M.Jr: Well look, let me ask you, if you were in a private banking business at this time and you had a client that needed five or ten million dollars, wouldn't you be apt to say, "Well now, listen, Bill, let's wait until after the first of May. Can't you wait for your money?"

Taylor: Well, I'd tell him that, but I'd never tie him up with a long term non-callable issue.

H.M.Jr: Perfectly true, and if we didn't have anything maturing before '49 then I'd say that is so, but how much is coming due between now and '49?

Murphy: Not nearly as much as the requirements.

Taylor: Not as much as you need.

Haas: Of course, he can still meet the requirements that were set up if he starts to do it in June. In June is time enough.

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- Murphy: I think there will be a set of circumstances in June which will render it inexpedient, and there will be a set in September, and there will be a set next December. I can't help but feel that it is an issue which it is just as good to face now, when we have a small financing. Suppose the market starts to recede; we'll want to keep our coupon rate fixed and we'll want to postpone it for another three months.
- H.M.Jr: Well, that's all right. Always that extra year. If we hadn't changed the other time, it might not have gone through. I mean you've got a theoretical thing that you want to meet; then we've got a practical one.
- And in this memorandum, you completely overlooked the fact that the private issues this time are sticking. You don't mention that.
- Murphy: What we have called attention to is that the market doesn't consider that a seven-seventeen year issue is disadvantageous.
- Seltzer: Your two and a halves are selling a hundred one and a half just the same.
- H.M.Jr: Well, I still say... You may be right, I may be right. I don't want to take the risk. And I may not take it in June; I don't make any commitments. But right now I wouldn't want to come out with that kind of an issue, and I'm perfectly willing to put it up to Burgess tomorrow morning cold, and see how he'd react.
- Haas: He really should have the background of that memorandum.
- H.M.Jr: But you've got - my heavens, here you've got in the next seven years - you've got in the next seven years - you've got...
- Seltzer: About 17 billion.
- H.M.Jr: How many billion have you - how much have you got here?

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Seltzer: We have callable or maturing 17.3 billion.

H.M.Jr: How much?

Seltzer: 17.3 billion.

H.M.Jr: In the next seven years. Well, what are you worrying about?

Seltzer: Folks have got a lot of money coming in in the next seven years. You've got 14.8 there. This 17.3 includes all your bills.

H.M.Jr: Well, I asked you to come in and advise me, but I've got to weigh it. We're having another meeting tomorrow. You, Taylor, favor this seven-seventeen?

Taylor: No, I figure fives.

H.M.Jr: Five what?

Taylor: Five - whatever maturity you want on the other end.

Bell: Five-ten, five-fifteen, or five-twenty.

H.M.Jr: Well, Dan, how do you feel about it?

Taylor: Seven years is tricky; I think the fives are not so tricky.

Murphy: We would prefer the five. We put in the seven as a concession to form.

H.M.Jr: Dan?

Bell: Well, I do think the market is a little nervous, and every time we start something new, why, the cry goes up that the bond dealers will disrupt their hands. Whether they would or not, I think, is a question. But you don't have to really decide this particular question until the first week in March.

H.M.Jr: True.

Bell: You can decide now that you will finance in March. Certainly on the refunding - what you do with it, whether you put it into a five-fifteen or five year note, you don't have to decide now. You can see

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what the market is the first week of March. It may change.

H.M.Jr: What I'd like to do is to decide now, between now and tomorrow noon, three things. Let me get you on the record. One, bills. Yes or no? Three hundred million bills.

Bell: I agree with that.

H.M.Jr: All right, shall we call the April note March 15?

Bell: Well, I'll go along with you on that. I don't think it makes much difference, but you want quarterly financing.

H.M.Jr: Yes.

Bell: O.K., let's go along with that.

H.M.Jr: Any new money?

Bell: No.

H.M.Jr: What?

Bell: No.

H.M.Jr: That's the three things. That's all I want to know. That doesn't involve the type of financing. Now, Archie, do you mind being put on the record?

Lochhead: No, I check entirely with those answers.

H.M.Jr: You check. Wayne, do you want to get on the spot?

Taylor: I check with those.

H.M.Jr: What?

Taylor: I check with those.

H.M.Jr: George?

Haas: It's all right with me, in view of the discussion.

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H.M.Jr: Cy?

Upham: Yes indeed. I have a very slight preference, for no reason at all, for waiting until April, but I wouldn't - I couldn't even substantiate it very comfortably.

H.M.Jr: Harris?

Harris: (Nods yes)

H.M.Jr: Seltzer?

Seltzer: It's perfectly possible if you say so. I personally would prefer raising new money in March. You've got a nice market for it despite the nervousness.

H.M.Jr: Murphy?

Murphy: I'd prefer to raise the new money now.

H.M.Jr: All right. Well, at least now I know how to go into the meeting tomorrow. We'll put it up to them and see what they think, and we won't say what we think; let them talk first. What?

Bell: All right.

H.M.Jr: Let them talk first and we'll listen. Huh?

Bell: Yes.

H.M.Jr: All right, gents.

Seltzer: You know, one thing we don't always keep in mind is that most corporation issues are callable any time; they are callable at a premium. Thirty years issues callable on any interest payments - 105, 106. This isn't tricky or out of line. It is the standard practice.

Murphy: The Los Angeles Gas and Electric Corporation is calling as of April first an issue which it put out last year. In the 40 millions.

Seltzer: You can scarcely buy a bond that isn't callable right off the bat.

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- H.M.Jr: Well, that may have been done last year.
- Murphy: The structural situation has changed, just as it may change in our case. In their case it changed once, when the city bought their properties; they then had no further use for the money.
- H.M.Jr: Well, the only danger I could see for the Treasury is if we sold two or three billion dollars of fixed maturity. That, I think, would be a dangerous thing; I mean coming due on a fixed date, with no call provisions. As long as we've got so much of this thing...
- Haas: But I think it is important, this point that if you don't do it now - I mean on that long call period - it seems to me imperative that you do do it very soon.
- H.M.Jr: All right. That's all right.
- Taylor: Just a question of when. I don't think that the problem alters at all. I don't think it is unorthodox.
- H.M.Jr: Well, I don't say - I didn't say that, Wayne. But if I - if we got by this thing, then I'd start about the first of May beginning to talk this thing in the Street, see, and give them about six weeks to get used to the idea, see?
- Taylor: Well, the only place where we disagree is I think they'd get used to it in fifteen seconds, because they're used to it completely in all other issues.
- H.M.Jr: Yes, but not the Governments. And I don't want to do anything new and I'm nervous myself; too many uncertainties around. Until we get by the first of May I don't think anybody can rush a ticket. And what's happened the last two or three weeks proves it. I mean the best things we had for years, for a couple years, have been our five year notes. You could always count on those. And that's the softest thing you've got now. You could always figure you could always sell the five year note. And right now - is that right, Harris - it's the softest?

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Harris: Yes, the long notes and some of the high coupon Treasury bonds are particularly weak - long callable period bonds.

H.M.Jr: The long callables are?

Harris: Yes.

H.M.Jr: Well, I'll listen tomorrow and see what they got and then between eleven and twelve we'll try to make up our minds.

Prepared by: Lawrence H. Seltzer  
Assistant Director of Research and Statistics;  
Assisted by: Henry C. Murphy, and  
Sidney G. Tickton.

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DATE February 23, 1937

to Secretary Morgenthau  
from Mr. Haas  
Subject: Financing Considerations

I. The Secretary's Dilemma

There has rarely, if ever, been a time in the history of the Treasury when the choice of proper maturities for new and refunding issues of securities presented so difficult a problem as it does at this moment.

Despite the recent decline, market conditions are exceedingly favorable for any length of maturity that might reasonably be contemplated. We can sell a 5-year note carrying a  $1\frac{3}{8}$  percent coupon, or, at worst, a  $1\frac{1}{2}$  percent coupon; a 17-year bond with a  $2\frac{1}{2}$  percent coupon; or a 25-year bond with a  $2\frac{3}{4}$  percent coupon.

A Secretary of the Treasury, blest with such highly favorable conditions for short-, medium-, and long-term financing, would ordinarily count himself lucky indeed. He would count himself particularly lucky, if, as in your case, these well-nigh perfect market conditions existed at a time when he faced the necessity of formulating a program for the refinancing (and partial retirement), during the next 5 years, of some \$13.4 billions of maturities.

Yet the Secretary really faces a dilemma. All the dictates of orthodox finance urge that he take advantage of the present exceptional opportunity to refund the bulk of the existing short-term indebtedness as soon as possible into bonds of medium or long maturities. At the same time, even a casual examination of the probable reductions in the publicly held Federal debt to be accomplished during the next 7 years through the funds made available by the Sinking Fund, the Old-Age Reserve Account, the Unemployment Trust Fund, and other Government trust funds, clearly indicates that he cannot follow this path — that he must maintain a very large volume of short-term or callable obligations.

The Secretary's dilemma is no less real merely because the estimates based upon existing statutes appear to give him ample warrant for disregarding the normal dictates of prudent finance and for adopting, therefore, a program confined almost exclusively to short-term

securities. These estimates may be conservatively made and yet be subject to drastic alteration by new developments. Consider, for example, the enormous error that would have been involved in an estimate made in 1928 of the future course of the public debt. Who could have foreseen the length and severity of the recent depression?

The Secretary is particularly bound at the present time to protect the Treasury against the potential dangers of an undue concentration of near-term maturities because, in addition to the fact that the future is always uncertain, several specific contingencies cannot be ignored. These include: (a) The possibility that the Social Security Act will be declared unconstitutional; (b) that it will be placed on a pay-as-you-go basis, or the reserve accumulations reduced by an increase in the benefits, or the reserve accumulations reduced and (c) that the country may experience another major depression or a war within the next five to ten years. Should we face either a war or a major depression in the next five to ten years, for example, the unfortunate consequences of a refinancing of the present debt in short-term securities need no elaboration.

It is clear, then, that the Secretary cannot prudently arrange his debt schedule solely on the basis of the anticipated receipts from trust funds and the like; and that he cannot, on the other hand, disregard the obligation to arrange his maturities so that they will conform to the probable requirements of existing law.

## II. Meeting the Dilemma

There is only one method of financing that can provide a complete answer to this dilemma. This method is to refinance a large part of the existing near-term indebtedness by medium- or long-term bond issues callable after 5 to 7 years. Such issues alone would both fully meet the now-scheduled requirements of our trust and sinking funds and, at the same time, meet the dictates of prudent finance.

Such issues are so clearly essential to a sound program of financing at this time as to justify, if necessary, the payment of a higher rate of interest thereon than would be needed for issues with shorter maturities or with more deferred and less extended call periods. To be concrete, the interests of the Treasury would be better served in the refinancing of the next few years by  $2\frac{3}{4}$  percent 25-year bonds that are callable after five years, or by  $2\frac{1}{2}$  percent or slightly higher 7-17 year issues, than by  $2\frac{1}{2}$  percent 13-17 year issues, or by  $1\frac{1}{2}$  percent 5-year notes.

But, in the present market, it would not be necessary to add anything to the coupon rate in order to sell issues of the character now needed; and this fact only adds further force, if such were needed, to the advantages of the type of issues just described.

We have had little experience with low-coupon issues having early and extended call periods. It is to be noted, however, that the coupon rate of our 2½'s of 1949-53 is so low that it provides no reasonable assurance to the investor that this issue will be called for refunding at the end of 13 years; and, hence, this issue should be regarded as a 17-year bond. When it was suggested last December that the first call date of this issue be made at the end of ten years instead of at the end of 13 years, the only objection raised was that it would make the issue too rich. We have had no reason to change our opinion that this objection had no real merit whatever. We are inclined to believe, moreover, that the market in the future will place more weight upon the final maturity date, as contrasted with the first call date, than it has in recent years.

We believe, therefore, that a 2½ percent 7-17 year issue should be given very serious consideration as one of the major vehicles for our future financing; and, if our longest-term bonds continue to improve in the market relative to our short- and medium-term securities, that very serious consideration be given later to a 25-year maturity with a call period beginning 5 to 7 years after the date of the issue.

### III. Answering the Objections

There are three objections that will probably be raised to a proposal for a 7-17 year 2½ percent issue. These are, first, that it would constitute a step backward in maturity from our 13-17 year offering of last December; second, that the 7-year call date will make the issue too rich; and, third, that the extended call period will make the issue too difficult to price. None of these objections, in our opinion, has any substantial merit.

The first two objections have no logical basis and, from the standpoint of the Treasury, no merit whatever. We would be getting 17-year money at 2½ percent, just as we did last December, and the investor would be getting a 17-year bond, just as he did last December. The only difference is that the Treasury would be getting the additional option to call the bond 6 years earlier. This is worth nothing to the investor and is worth much to the Treasury. The outstanding 2½'s are selling at 101-17/32. The proposed issue should logically sell on a somewhat higher yield basis, but may, if the bankers are correct, command a slightly lower yield basis. In either event, the Treasury would be getting what it needed at minimum cost.

The fear that an early call date will make an issue sell too high really arises out of the fact that most of our outstanding issues with early call dates have been high-coupon issues. In these cases, the market has acted rationally in assuming that the Treasury would call such issues for redemption at the call date or soon thereafter rather than defer redemption to final maturity. In the case of low-coupon issues, there is no logical basis upon which the market can make a higher evaluation of Treasury bonds with early call dates than of other Treasury bonds of similar final maturity but remoter call dates. If, by reason of habit, the market nevertheless continues for a time to place a special premium upon early call dates, the Treasury should take full advantage of it.

The third objection -- that the extended call period might make the issue difficult to price -- does not withstand analysis. If the issue be regarded in the market as likely to have an effective maturity of somewhere between 13 and 17 years (which is the only safe assumption for the investor), it should sell on substantially the same basis as the outstanding 2 $\frac{1}{2}$ 's. If the market should regard its probable effective maturity as somewhat less than 13 to 17 years, it might sell on a somewhat lower yield basis. But the short period to the earliest call date narrows the range of probable prices very sharply, and thereby makes pricing much more certain than it can be in the case of issues with remoter call dates. This is true because the market must allow for absorbing the entire premium during the non-callable period. The narrow range of prices for the proposed issue on various yield bases is shown below:

If the issue sold on a 2.25% yield basis, its price would be	101-20/32
" " " " " " " " " " " "	" " " " " " " " " " " " 101-9/32
" " " " " " " " " " " "	" " " " " " " " " " " " 100-31/32
" " " " " " " " " " " "	" " " " " " " " " " " " 100-21/32
" " " " " " " " " " " "	" " " " " " " " " " " " 100-10/32

The outstanding 2 $\frac{1}{2}$ 's are selling on a 2.36 percent yield basis. If, nevertheless, it were feared that the proposed 7-17 year 2 $\frac{1}{2}$ 's would sell on a 2.25 percent yield basis, and that the premium of 1-20/32 points would be too great, it would only be necessary to move the earliest call date forward by another year or two. If the issue were for 6-17 years, the price would be 101-13/32 on a 2.25 percent yield basis, 101-4/32 on a 2.30 percent yield basis, and 100-27/32 on a 2.35 percent yield basis. A 5-17 year issue would sell at 101-6/32 on a 2.25 percent yield basis, at 100-30/32 on a 2.30 percent yield basis, and at 100-23/32 on a 2.35 percent yield basis.

In citing probable prices based upon a yield basis of 2.25 percent or thereabouts, we by no means intend to imply that the proposed issue could be safely regarded by either the Treasury or investors as entitled to sell on such a yield basis in the present market. A bond

carrying such a low coupon can be conservatively evaluated by the investor only on the basis of its final maturity. On this basis, the premium in the present market would be about one point. The  $3\frac{1}{4}$  percent FMC bonds of 1944-64 are now 7-27 year bonds. They are selling on a 2.37 percent basis. In this case, the relatively high, but not absolutely high, coupon offers a fair chance that the issue will be called for redemption well in advance of 27 years. An excellent illustration of the fact that the market, even with its present predilections, does not ignore final maturity dates, is given by the comparative yields of two HOLC issues. The  $1\frac{1}{2}$  percent HOLC bonds of 1939 are selling to yield 1.13 percent. The  $2\frac{3}{4}$  percent HOLC bonds that are callable only two months after that issue, but do not finally mature until 1949, are selling to yield 1.58 percent. In this case, moreover, the market's interpretation of the probable effective maturity is undoubtedly influenced by the general opinion that HOLC collections will be sufficient to permit a redemption of the issue well in advance of final maturity.

The Federal Land Bank 4's of 1944-46 are selling on a 2.36 percent basis. The Federal Land Bank  $3\frac{1}{2}$ 's of 1945-55 are callable only ten months later than the 4's, but, as noted, their final maturity date is nine years later, and they are selling to yield 2.72 percent.

It appears reasonably certain, therefore, that a 7-17 year  $2\frac{1}{2}$  percent bond will not be priced by the market on a yield basis appropriate for a 7-year maturity.

#### IV. Estimated Reductions in Privately Held Public Debt to be made Possible During the next Seven Years

In an attempt to provide a useful measure of the amounts of funds to be made available during the next 7 years for reductions in the privately held public debt, we have added to the current estimates for the Sinking Fund and Old-Age Reserve Account very conservative estimates of additional funds to be provided by the Unemployment Trust Fund, the Civil Service and similar retirement funds, and the sale of United States Savings Bonds. From these sources alone, if the estimates are realized, a total of \$14.8 billions will become available for such public debt reductions by the end of the fiscal year 1944. The aggregate amount of the privately held debt, callable or maturing in this period, is only \$17.3 billions. If, from this figure, we subtract  $\$1\frac{1}{2}$  billions of Treasury bills that we shall presumably wish to maintain because of their low rates, their flexible maturities, and their great value to the banking system, the net excess of privately held debt callable or maturing in the next 7 years over the amounts made available for reduction is less than \$1 billion.

It should be noted, moreover, that we have made no allowance in the estimates of funds for debt reduction for any budgetary surpluses, and these may well be substantial, with our present tax structure. Nor have we made any allowance for the possible use of any portion of our gold profit nor for a fuller monetary use of our silver bullion. Our estimates of the accumulations of the Unemployment Trust Fund are, in the opinion of our Actuary, at a bedrock minimum. These factors will probably far more than offset any increases in the privately held public debt that may occur this year and next as a result of budgetary deficits.

The following table shows the estimated funds available for reductions in the privately held public debt for the fiscal years 1938 to 1944, inclusive, individually and cumulatively; and the amounts of privately held public debt securities maturing or callable in these years:

Estimated Investment Requirements of the Treasury  
By Fiscal Years

(In millions of dollars)

	1938	1939	1940	1941	1942	1943	1944	Total- seven years
Sinking Fund	404	859	874	639	655	672	689	4,792
Old-Age Reserve Account	540	555	709	862	871	1,001	1,124	5,662
Unemployment Trust Fund <sup>1/</sup>	577	250	250	250	250	250	250	2,077
Retirement Funds <sup>2/</sup>	45	45	45	45	45	45	45	315
Federal Deposit Insurance Corporation	30	30	30	30	30	30	30	210
Sale of United States Savings Bonds <sup>3/</sup>	250	250	250	250	250	250	250	1,750
Miscellaneous Investment Accounts <sup>4/</sup>	-	-	-	-	-	-	-	-
Use of gold and silver for debt retirement	-	-	-	-	-	-	-	-
Use of present Working Balance for debt retirement	-	-	-	-	-	-	-	-
Use of net budgetary surpluses for debt retirement	-	-	-	-	-	-	-	-
<b>Total investment requirements</b>	<b>1,846</b>	<b>1,989</b>	<b>2,158</b>	<b>2,076</b>	<b>2,101</b>	<b>2,248</b>	<b>2,388</b>	<b>14,806</b>
<b>Cumulative total investment requirements</b>	<b>1,846</b>	<b>3,835</b>	<b>5,993</b>	<b>8,069</b>	<b>10,170</b>	<b>12,418</b>	<b>14,806</b>	
Privately held public debt securities becoming due or callable <sup>5/</sup>	6/4,908	2,812	2,957	2,420	1,001	425	2,733	
<b>Cumulative total privately held public debt securities becoming due or callable <sup>5/</sup></b>	<b>6/4,908</b>	<b>7,720</b>	<b>10,677</b>	<b>13,097</b>	<b>14,098</b>	<b>14,523</b>	<b>17,256</b>	

<sup>1/</sup> Net additions to the Fund; after 1938 this allowance amounts to only one-third of receipts.

<sup>2/</sup> Contemplates no change in present laws.

<sup>3/</sup> Net sales — allows for substantial volume of redemptions.

<sup>4/</sup> Estimated to offset each other.

<sup>5/</sup> Excludes public debt securities held by Government agencies and trust funds.

<sup>6/</sup> Includes maturities in fiscal year 1937.

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#### V. Immediate Financing

1. In order to provide mid-June bill maturities to moderate the strain on the money markets incident to income-tax payments at that time, \$50 millions of additional bills of such maturity may be issued on each of the six Wednesdays beginning with March 3, or with March 10, with payment allowable by war-loan deposits for the issues of March 10, 17, and 24. At the end of April and May, the Treasury balances, with no other financing, would approximate \$804 millions and \$539 millions, respectively.

2. We could, on this basis, raise no other new money until June 15, merely refunding the April 15 note maturity in either March or April; and raise \$500 millions of new money in June.

3. Another, and in some respects superior, possibility would be, in addition to the offering of mid-June bill maturities, to raise \$300 millions of new money on March 15 in conjunction with the refunding of the April notes. Any further new money that might be needed in June could then be provided either by means of \$200 millions of additional bill issues for mid-September or mid-December maturity, or by a further offering in June of the same bond issue offered in March.

While something might be said for confining the March 15 financing to refunding in order to keep the market hungry, two contrary considerations, in our opinion, are more important. In the first place, the market expects some new financing. The holdings of dealers have been sharply reduced. As a rule, it is better to meet the market's expectations because these expectations have themselves prepared the way. And \$300 millions of new financing would be regarded by the market as only a replacement of the mid-March bill maturity rather than as new money.

Even more important, however, is the consideration that we know the present level of interest rates, whereas we cannot know what they will be three months hence. We know, further, that the present rates are distinctly favorable for a bond financing; and a very considerable improvement in the market could take place without permitting us to do any better in June as respects coupon rate or maturity than we can do in March. And it is not impossible that the sharp decline in the British bond market may, if continued, find a more pronounced sympathetic response in our market than it has so far.

4. The ease of raising only \$300 millions of new money in conjunction with the note refunding on March 15 adds greatly to the attractiveness of this alternative. In our opinion, this would be an excellent time to offer the 7-17 year  $2\frac{1}{2}$  percent bonds previously discussed in this memorandum.

Secretary Morgenthau - 2/23/37 - 9

If it were desired to give full latitude to the present holders of the maturing notes, a 5-year  $1\frac{3}{8}$  percent note could be offered for refunding only, and the holders given the option of preferential subscriptions to the new bonds. While a  $1\frac{3}{8}$  percent 5-year note might have some difficulty if offered for new cash, it should have little difficulty if confined to exchange subscriptions; although it might be desirable to offer the month's overlapping interest between March 15 and April 15 on such exchanges -- the interest overlap being equivalent to  $\frac{8}{32}$  of a point. Even with the overlap of interest allowed on exchanges into the new notes, there is every probability that the bulk of the maturing notes would be tendered for the new bonds.

LMS

GRAY

London

Dated February 23, 1937

Rec'd 3:30 p. m.

Secretary of State,  
Washington.

92, February 23, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL. Inasmuch as there have recently been rumors in the city regarding possible action by the British authorities to hinder flow of funds to the United States, I made inquiries at the British Treasury today and was informed in confidence that the Foreign Transactions Advisory Committee (the formation of which was reported in my 192, April 8, 1936) with the Chancellor of the Exchequer's approval, has informed the Association of Investment Trusts that in cases where proposals by trusts for new issues come before the committee, the committee will (a) when the proportion of existing foreign holdings of a particular trust is unusually high ask the trust to reduce that proportion as occasion serves in the course of business, (b) ask trusts to confine future investment abroad to the minimum necessary to the conduct of the business of the trust in accordance with the ordinary

LMS 2-No. 92, February 23, 7 p. m., from London.

ordinary practice of investment trusts.

In this connection the British Treasury stated that they felt that to the extent that these measures put the brake on investments in the United States they will be in accordance with the general policy of the American authorities.

ATHERTON

WYC:KLP

RECEIVED

FEB 24 1937

TREASURY DEPARTMENT  
Office of the Director  
Federal Reserve Bank of New York

February 23, 1937

I let the President read this and asked him what to do and he said to get a report from London on what really happened and to make no comment until I had heard directly from London.

*Foreign Funds*

1152

BRITISH STATEMENT ON INVESTMENTS IN U S

LONDON - THE PRESS ASSOCIATION ISSUED A STATEMENT MONDAY NIGHT THAT THE BRITISH TREASURY HAD RECENTLY REQUESTED INSURANCE AND INVESTMENT TRUST COMPANIES NOT TO MAKE ANY FURTHER INVESTMENTS IN THE UNITED STATES

LEADING BROKERS HOWEVER ARE INCLINED TO THE VIEW THAT THERE IS NOTHING PARTICULARLY NEW IN THIS STATEMENT AS THE TREASURY-S POLICY FOR MANY MONTHS HAS BEEN TO DISCOURAGE OVER-INVESTMENT IN UNITED STATES SECURITIES AS INSTANCED BY TREASURY REFUSAL LAST MAY TO ALLOW THE FORMATION OF A FIXED TRUST CONFINED TO DOLLAR SECURITIES AND ALSO THE BAN ON LISTING OF ANY NEW AMERICAN SECURITIES ON THE STOCK EXCHANGE

IF THE TREASURY HAS GIVEN FURTHER DISCOURAGEMENT IT IS PROBABLY ONLY A REMINDER OF ITS GENERAL POLICY AND IS AIMED MORE AT CAPITAL APPRECIATION FUNDS OF INSURANCE AND TRUST COMPANIES AND NOT AT INVESTMENT FOR INCOME - THE TREASURY POLICY ORIGINALLY WAS AIMED AT PROTECTION OF STERLING AND POSSIBLY IS NOW COOPERATING TO SOME EXTENT WITH PRESIDENT ROOSEVELT-S CAMPAIGN AGAINST -HOT MONEY- - IN ANY EVENT NO SUGGESTION HAS BEEN MADE THAT BRITISH INVESTORS SHOULD REALIZE ON ANY AMERICAN SECURITIES NOR ARE THEY DISCOURAGED FROM TAKING UP ADDITIONAL STOCK ACCRUING FROM STOCK BONUSES - NOR HAS ANY PRESSURE BEEN PUT UPON PRIVATE INVESTORS TO DISCOURAGE THEM FROM BUYING UNITED STATES SECURITIES

IN ANY CASE THE STATEMENT HAS PASSED WITHOUT MUCH COMMENT HERE AND WITHOUT EFFECT ON THE AMERICAN SECURITY MARKET

FEB 23 1937

TREASURY GROUP ON RESTRICTION OF  
FOREIGN CAPITAL INFLOW

February 23, 1937  
3:10 P.M.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Seltzer  
Mr. Kent  
Mr. Upper  
Mr. Taylor  
Mr. Haas  
Mr. Zucker  
Mr. White  
Mr. Lusk (Bur. of Int. Rev.)

Magill: We have been speculating upon the possibility of either a transfer tax on non-resident aliens - on transfers of securities, or the possibility of some kind of a tax on capital gains.

What we had in mind was that, since we have a little breathing spell at the moment, we ought to do some affirmative work of our own to see whether it is really possible to work out either one of these taxes, rather than consider that there are insuperable difficulties to proposals made by other people.

Well, this particular - we discussed all of these several propositions at some length the other day, and the boys have been working particularly on the proposal for a transfer tax as affecting securities. The background of that, as I understand it, is this: that a tax upon the transfer of stocks, let's say, either to or from an alien, could be imposed at such a rate as not to deter the investor but to deter completely the speculator.

We have had proposals in the shop, for example, for the same kind of a tax with respect to our own citizens on the transfer of securities. That is, it has been suggested by Mr. Pell, who, as you may or may not know, wrote us a letter, that if a tax was imposed at one percent, which I understand is the rate the British do employ, on the value of securities, that it would prevent the in-and-out trader from engaging in his activities but would not prevent an investor from buying.

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Well, this proposal we have here is of the same character, except simply as applied to non-resident aliens; that if you sell stock through a broker to a non-resident alien, or if the non-resident alien sells stock through a broker to you, in either case a transfer tax shall be imposed, probably, as it's been outlined here in rough form, at some such rate as one percent, with a further provision similar to that we discussed before for a series of standards on the basis of which the President might increase the rate somewhat.

Now, you notice what we have in mind there is to meet one of the points that's been made with respect to this foreign money; that if an emergency should arise and foreigners should start dumping their securities in our markets, this kind of a device would enable the President to put something of a brake on that. And it would also psychologically act as a good deal of a brake if the alien knew that at any time an emergency came the President could slap on a heavy tax on the transfer of securities from aliens to Americans.

Well then, the other problem that we have mainly considered has been whether or not this kind of a proposal could be carried out, in view of the fact that it would not affect transactions on foreign markets. Well, the men who have been working on it have, as I understand it, two answers. First, that the tax could be so framed that if an American sold securities on the Montreal market to a Canadian or Britisher, the tax would still apply, the American would be liable for the tax, and that penalties can be imposed severe enough so there isn't very much danger of evasion in that particular phase. Now, obviously, transactions between Canadians on the Montreal market will not be affected at all. Those can go on. But it is further true that from those transactions there is no flow of money to this country, so that the fact that those transfers exist doesn't particularly bother us.

Hence, with that background - I don't know whether - it isn't very well organized - the conclusions that the economic and legal staffs have come to, as I understand it, are these: First, that to attempt

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to increase the withholding rate and then to provide for adjustments for non-resident aliens who have held securities for a long time - that that is administratively highly impractical; that it can be done but it is shrouded with a great deal of difficulty.

H.M.Jr: That's the one according to the length of time?

Magill: That's right. Arrange a lower rate in the event the alien had held the security for a long time.

Oliphant: That, you recall, was what the President asked us to do more work on. The answer to that is no.

H.M.Jr: You'll have to give him a pretty good reason, explain it. As a matter of fact, I'd have a pretty technically correct brief on it, because he's got it in his mind. I think we ought to give him a workmanlike paper rather than an inter-office memorandum. I think we ought to have a workmanlike document in case he shows it around anywhere - "Why, this is the reason," and somebody else won't come along and say, "Well, they haven't covered the field." So take that position and be awfully sure. I would put it up in a legal, workmanlike manner. I mean I'd take plenty of time on it.

Magill: Then the second proposition is that, rather than do that or attempt to do that, it would be much better to have a transfer tax of the sort that I have outlined here.

H.M.Jr: Well, that's a new one, isn't it?

Magill: Yes.

H.M.Jr: That would go both ways. That would be the alien selling to the American - be one percent, or the American selling to the alien, that would be another one percent. Is that right?

Magill: Yes

Oliphant: Yes.

This group, this study group that's been working for

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two or three months, have worked on three possibilities: the possibility of this transfer tax; the possibility of a tax on the income - that's the withholding tax; and the possibility of the capital gains tax. Now, the possibility of capital gains tax drops out on the basis of what you said the other day to this group. And then, when you take this withholding tax and try to work in the exception for the Scottish insurance companies that the President wants, it becomes much more complicated and undesirable than the transfer tax, good or bad as the transfer tax is. The withholding tax, the one we took over there the other day - if you put in the exemption that he wants for the Scottish insurance companies, it is much worse from an administrative standpoint.

- H.M.Jr: Do I understand you are recommending the two taxes, the transfer tax and the withholding tax?
- Magill: The present recommendation of these men - and both Mr. Oliphant and I have seen this thing just a short time before we have come in here - but the recommendation, as I understand it, of the legal and economic experts is that the transfer tax, as they at present envisage it, would be a better tax to put a brake on this flow of foreign capital than the increase in withholding rate, and they feel that that is clearly true if there are to be some exceptions in the withholding rate in the case of people who have held the securities a long time.
- H.M.Jr: What would be the State Department's objection? On what ground did they object to the transfer tax?
- Magill: I should suppose on the same ground that they object to the increase in the withholding rate. We have a transfer tax on our own securities transferred among our own people. I don't know that you could say it's nominal but it's very much smaller in amount than this would be in most cases.
- H.M.Jr: Of course, from their standpoint, their approach, I should say this transfer tax would be much more objectionable than the withholding, because you are setting up a new barrier over which you've got to jump before you do business between two nations.

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- Magill: I'm not so sure, because this - they might feel.... I think they probably would object to it, but they might feel this: that the income tax represents the established mode of taxation which we apply to our own people and apply to aliens, and that if we left that thing alone but then said that for the sake of stopping in-and-out speculation by non-resident aliens, which is bothersome to us, we are going to put on this tax, it would be perfectly clear that we are not hitting the Scottish investment trusts or not hitting the foreign insurance company or the foreign long term investor; that we are after a breed of pup that we think is damaging our market.
- Oliphant: Hull, you remember, the other day spoke rather at length that if you had something aimed - if the world understood that you were gunning for the....
- Haas: He said "speculators."
- Oliphant: ...unnatural movements, he said that would be one thing, and I gather that he was ready to join us if we had something that was aimed at this unnatural and abnormal - unnatural and abnormal, that's what he called it - in-and-out flow of capital.
- H.M.Jr: But I think this - to me, I mean, just - here's a new barrier which a fellow - I'm looking at it now from the standpoint of the State Department. Here's a new barrier which you set up which you've got to jump over before you can do business between two nations.
- Seltzer: On the other hand, if he keeps that security a long time, that barrier, as amortized over that period, doesn't amount to much, because....
- H.M.Jr: But the more you go into the State Department objections, the more they are opposed to doing anything.
- Haas: You really have to drop the subject almost, Mr. Secretary, unless you want to put a barrier up, because that's the only way you can stop a flow.
- Magill: I think this is true: I think in arguing with the

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State Department we would feel that we are on better ground in arguing against their discrimination point with respect to this tax than we would be on the other.

H.M.Jr: Well, personally I'd be for both. I mean leaving - I mean now that you...

Magill: Well, I think that depends on how strongly - or what you think the psychological effect is going to be.

Oliphant: You mean the withholding tax with or without the exception of the Scottish insurance companies?

H.M.Jr: I won't say on that. Well look, I've listened to this thing, and Scottish trusts or any other trusts - why shouldn't those fellows pay the approximate tax that our citizens pay on approximately the same amount of income? Now I - and then George popped one out at me this morning, just sort of on a leap. But you (Haas) say that the English have a twenty-three and three-quarters withholding tax but they've got a refund?

Haas: Uh-huh.

H.M.Jr: Now, what's that?

Haas: Well, that's - Ros knows the details better than I do - but they - the people with small incomes can apply for a refund - British nationals; but that doesn't apply to Americans. So if we had our State Department over there they would say that was great discrimination. They wouldn't let the British - they'd object to the British Treasury, whoever handles the tax, doing that.

H.M.Jr: Has anybody got the actual facts on that?

Zucker: We don't have the facts, but in so far as the twenty-three and three-quarters percent rate paid by corporations is in excess of what the individual stockholder would pay on his portion of the income earned by the corporation, he is permitted to ask for a rebate for the difference.

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- Magill: I can explain if you want the technique. The British individual has a personal exemption just as we have in this country. Furthermore, although the British normal tax is twenty-three and three-fourths percent, it is only half that much on the lower part of the income. Now, the corporation pays this twenty-three and three-fourths percent tax on dividends which it is distributing, for instance. If I, as an individual, receive this amount and have this exemption within this lower bracket, I apply for a refund and get it. And get it quick.
- Oliphant: But not if you are a foreigner.
- Magill: But not if I am a foreigner.
- H.M.Jr: Well, has that ever been pointed out to the State Department?
- Haas: I don't think so.
- Zucker: Yes, they know that.
- Magill: I don't know whether you could turn their eyes in that direction or not.
- H.M.Jr: Let me ask you a question. Have you people explored the facts - for instance, if we passed a law saying that this increase in the withholding tax for the calendar year 1937 would not apply to any alien investor who owned this stock prior to December 31, 1934, and then each year we put that forward one year. Have you done it that way?
- Oliphant: Yes, that's what we've done.
- H.M.Jr: And that won't work?
- Oliphant: No, that gets you into tremendous complications as soon as you introduce the time element, because in order to get that time element....
- H.M.Jr: You can't do it?
- Kent: It places an enormous burden upon the withholding

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agent - really an unfair burden because they are liable to withhold the tax in all cases where, on the facts of the law, the withholding is due.

Seltzer: You could do it on all registered holdings.

Kent: Yes.

Seltzer: And I think in that case you'd take care of a great bulk of the people who should be exempted.

H.M.Jr: Well, let me, just as an amateur, poke at this thing a minute or two. Let's just say that the State Department has its way and we can't do this thing, but this thing gets worse. Supposing we have a little clearing house for all checks that should go abroad - all dividend checks - and set up a little organization in the Federal Reserve in New York, and all checks go through there and all people have to register, and we take the burden off the corporation. And General Motors sends all their dividend checks for foreigners to the Federal Reserve of New York, and then the Federal Reserve of New York is our agent and makes these people declare and they do the work that we pay them for. Have a little clearing house there.

Oliphant: The difficulty comes at the first step, in telling General Motors to send all checks going to foreigners; they can't tell.

H.M.Jr: Well, they know if they're going to mail them out of the country.

Oliphant: Well, it may be a street name. It may be intended for a foreigner and still the name of a resident.

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

Zucker: They also send a good deal to nominee accounts in the United States, who in turn will do the shipment abroad. That is, the General Motors Corporation may have as stockholder of record the Chase National Bank, and the Chase National Bank may have non-resident aliens for whom it holds. So the scheme filters down to where you have several second parties involved.

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- White: Nevertheless, it is possible to pursue that, even where a bank makes payment to an alien. Even though it may be deposited within the same bank, if the payment arises from an interest or dividend - even though they may be an intermediary in it, it still would fall under the same category.
- Zucker: It falls down in so far as the dividend item - the amount itself is kept in this country and not shipped abroad.
- White: It could still be caught there, as long as any check was available upon the records of the bank. Clarence suggested something like that about a month ago. It was dropped out of the picture, but it has possibilities. It wasn't explored.
- H.W.Jr: Well, I'm going to say this to the study group while you're on it. I don't say that this is the immediate thing. I think that this group certainly ought to be preparing what we would do in case of war and now we'd handle this whole matter - this question of dividends going out, funds in this country being used for purchase of war materials. I haven't looked at this neutrality bill. I don't know whether it covers any of that stuff or not. I think somebody should look at the neutrality bill. But I think we certainly oughtn't to be caught with a declaration of war anywhere and then suddenly, say, have the President send for me - "How are you going to handle this?" I'd like to have a machine which I could just put in gear and let her go; and have people like Burgess and the other people come down and let's get all the bugs out of the thing now. After all, he asked me point blank to study how we would handle eight billion dollars worth of securities owned by aliens in case of war. And with all this neutrality talk and everything else, you turn loose those funds and the possibility of another country seizing the stocks which are owned and they having a transfer association and pooling those stocks - American-owned stocks, and then directing the sale, etc. I mean how are we going to counter that sort of thing? I think our whole thing ought to be worked out so we have as near foolproof a machine as possible.
- White: This transfer tax was designed in part for that contingency - the flexible provision.

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H.M.Jr: But I think we ought to have that thing.  
There's Kent's thing that came in. I haven't read it. Might circulate it. (Hands to Magill). Is that addressed to the President or to me?

Magill: You.

H.M.Jr: I haven't read it.

Oliphant: Has it been acknowledged?

H.M.Jr: No.

Oliphant: Well, that might envision the necessary procedure.

H.M.Jr: Tell you what I'll do. Let me send an acknowledgment. Then I'll send it to you (Oliphant).

Oliphant: We probably ought to have in mind either the machine necessary in case we had to take it all over...

H.M.Jr: That's what I had in mind. And if - we're going to go the whole way and then work backwards, and then say, "We can do this thing in certain degrees," see? What I mean, we can do all of it or we can do sectors of it. I mean, say, we'll go the whole way; we'll have an alien property custodian for all stocks and go the whole way, and then work backwards; say we can do 90 percent, 80 percent, 70 percent, so far back. I think we ought to let the State Department know we're working on it. I mean go on the thing backwards.

Haas: I think the State Department is very illogical. For example, Great Britain puts forward a great armament program; we build battleships, etc. They converge on the same ground they objected to. If they object to this, they should object to our building battleships.

H.M.Jr: They most likely do.

Haas: The Navy puts up this armament program. We try to protect our economic system; but they object. Maybe they are objecting, but on the equal ground they would have to object to the building of battleships.

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H.M.Jr: Well, as I say, I'd like to go the whole way, then go backwards. And I think the Federal Reserve people in New York would be very helpful on this thing - technique.

And, very, very confidentially - extra confidentially - in talking with the President today he asked me just where this matter stood, and I told him I was to hear from Mr. Hull today. He said if I didn't hear from him today I should take it up with him tomorrow, because he does want to go ahead. The President doesn't want to leave it die; he definitely wants to go ahead. So he said - after I explained what I said to Mr. Hull, he said, "Get in touch with Mr. Hull tomorrow. I want you to go ahead on it."

Oliphant: Well, I think what that means to this group...

H.M.Jr: So you're not wasting your time. And the way the President talks - "Wait until tomorrow" - and he wanted to know, and he'll want something, see?

Oliphant: I think that what that means from the standpoint of the group - while the thing we are bringing in to you has not progressed so that you could call it a recommendation of this group, certainly it is the general group feeling that the transfer tax is a good deal more feasible than the withholding tax with the exception that the President wants.

H.M.Jr: But supposing we point out to the President, say, "We can't differentiate between alien investors as to the length of time; we've got to keep them all as one." See? Then he could say, "Well, all right, go ahead," or "I don't want you to go ahead," or "Do these transfers too, and do both." But I thought you'd like to know that he has not lost interest.

Magill: Well then, this is where we are. We've got several different projects here. We ought first of all to formulate a document to show why it is administratively impractical to do what the President had in mind.

H.M.Jr: And for that I want a good enough piece of paper that anybody can see it. You know what I mean; I mean it

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gets around. I want it good enough - I want it the best that the Treasury can do.

Magill: Then next we want a formulation of this transfer tax proposal in definite form.

H.M.Jr: That's right.

Magill: Pretty close to legislation, I mean.

H.M.Jr: What I think we ought to do is prepare this document and I'll ask Mr. Landis and Eccles to get together and give them this document in advance so they can look at it and study it. We'll say, "This is what we've arrived at. This is why the Treasury feels we can't comply with the President's request. But we have another proposal and we'd like to put it up to you."

Magill: And then the third thing to go ahead on is this more general proposal.

H.M.Jr: But that's purely Treasury. There's no reason why we should take in the other two organizations on that. I want to keep that very secret.

Magill: We darn well better do it just the same.

H.M.Jr: I mean if you want to keep it secret you've got to do it - keep it in the Treasury.

White: Are you ruling out the possibility of having both this transfer tax and the original withholding tax?

H.M.Jr: No.

Magill: No.

White: Because if you do have them both, it will be possible to reduce the transfer to a lower rate and still get the degree of effectiveness you want.

H.M.Jr: They're going to prepare a legal document which, as soon as it's ready, I'm going to send over to the President, showing why we can't differentiate between investors. Is that right? Well then, I'll wait until

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I hear from you people again.

Magill: Yes.

H.M.Jr: Again, I'm sorry - we'll have to go ahead. I'm sorry in this way, that it takes so much time. But I think we might just as well concentrate and try to get it out of the way. I didn't know how the President felt about it, because after all when he was asked a few days ago about "hot" money he said, "Well, it's not so hot." But he said that last week. But today he definitely told me he wants to go ahead.

Magill: Well, I guess that's where we are.

Oliphant: Well, whatever is finally done, it's going to be something that the Treasury has to live with, and the Treasury has to make good.

H.M.Jr: True, true. All right.

February 23, 1937.

Excerpt from Mr. Magill's "Memorandum of the Day's Activities for February 23rd," to the Secretary:

NON-RESIDENT ALIENS.

We conferred this morning and again this afternoon regarding the possibilities of the tax on the transfers of American securities to and from non-resident aliens. The tax should be at a rate which would discourage speculative transactions but which would have little effect upon purchases for investment. This rate would be approximately 1% of the value of the securities purchased or sold. I think the Act should contain a provision enabling the President to raise the rate in the event of emergencies to be described in the Act. It would seem possible to frame the Act in such a way as to afford considerable protection against a sudden withdrawal of capital from this country.

N. Y. News Bureau 11:33 A. M. Feb. 24, 1937

High Government Official predicts dropping of plan to levy high tax on foreign capital.

Washington:

Plans for a drastic penalty tax on the eight billion dollars of foreign capital now in the United States will be dropped in favor of a gentlemen's agreement between the United States and Great Britain to discourage the continued influx of foreign capital to this country in the opinion of a high Government Official close to the administration.

The prickly question of how to stop the influx of gold to the United States has been under detailed consideration for several months by the government's financial experts including Secretary of the Treasury Morgenthau, Chairman Eccles of the Federal Reserve Board, and Chairman Landis of the Securities Exchange Commission. In mid-November President Roosevelt urged action towards a solution of the dangers inherent in the presence of these huge funds and in further inflows of foreign gold. Means are being sought for discouraging the entry of more gold and for control of capital already here to prevent disastrous results should withdrawals take place. At present approximately \$6,500,000,000 of the foreign capital here is invested in American long-term securities, while the remaining \$1,500,000,000 is short-term capital.

As a result of the recent White House visit of Walter Runciman, British Cabinet member for Trade, it is reported that the British Treasury has already taken steps towards controlling the outflow of gold to American investments, namely, in advising investment trusts, investment houses, and insurance companies to discourage such investments on the part of their clients. The British Treasury, it was stated, can exert considerable pressure on banks and other financial institutions which will have a strong deterring effect in the desired direction.

Also, the Official pointed out, it is in conformance with British domestic policy to stop the outflow of capital, especially in view of the need for funds in the forthcoming \$7,500,000,000 rearmament program. The next step, he said, will probably be an increase in the tax by the British Government upon the income received by British residents from foreign investments. British nominees for foreign holders of securities would be taxed through deductions before transmitting dividends to the owners.

Although French, Dutch, Swiss, Canadian, and other funds have been flowing in large quantities to the U. S. markets, the only agreement necessary is with Great Britain, he continued, as the only free gold market is in England. Canada, he pointed out, offers no real problem, as Canadian purchases and sales do not fluctuate much and Canada in fact is a part of the U. S. financially.

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According to all indications, therefore, he continued, the administration has decided that a gentlemen's agreement with Great Britain would be the most practicable solution and that it can be effected in view of the fact the objectives coincide with those of that country. Further, it has been found that taxation such as proposed would prove ineffective. It would require a record of all transactions involving a spy system equal to the Ogpu. Also, he declared, it would cause retaliation on the part of foreign nations resulting in further instability in international exchange and would put off indefinitely any possibility of currency stabilization.

In addition, he continued, to widen the difference between the tax on American and foreign incomes from securities by an exorbitant tax would cause foreigners to use American names to escape the tax and result in the setting up of American holding companies which would act as shields to the real owners of the securities.

LMS

GRAY

London

Dated February 24, 1937

Rec'd 2:45 p. m.

Secretary of State,  
Washington.

93, February 24, 5 p. m.

FOR TREASURY FROM BUTTERWORTH.

The information regarding the action taken by the Foreign Transactions Advisory Committee reported in my 92, February 23, 7 p. m., will probably be authoritatively made public by means of an answer to a question in the House of Commons shortly.

The FINANCIAL TIMES and FINANCIAL NEWS this morning contained officially inspired denials that the British Treasury had approached the insurance companies and it is implied that merely the "cooperative attitude" of the Association of Investors Trusts has been sought. The FINANCIAL TIMES adds that two motives explain the Treasury's action "firstly, there is the desire to assist President Roosevelt in checking the inflow of foreign money to the United States; secondly, it is reasonable to suppose that as the British Government is committed to heavy borrowing for defense the Treasury should make use of every available opportunity to keep as much money as possible in the country

LMS 2-No. 93, February 24, 5 p. m., from London.

country and thus preserve its cheapness".

My own inquiries in the city lead me to doubt whether this action of the British authorities will in itself directly affect a large amount of British capital in or going to the United States (one) because the regulations only affect trusts applying for new issues; (two) most British investment trusts already have substantial holdings in America, which in most cases have sufficiently increased in value to bring the total to that point beyond which an investment trust following a normal distribution of assets policy cannot go. This action may, however, have some additional value if it is interpreted as indicating that the British authorities oppose the excessive flow of funds from this country to the United States.

ATHERTON

WVC:CSB

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE February 24, 1937

TO Secretary Morgenthau  
FROM Mr. Magill

Mr. Fred I. Kent's letter of February 18, 1937 makes the following points:

1. Foreign investments are still valuable to this country, since we have not yet reached our maximum growth.

2. Movement of bank balances is not normally of sufficient moment to be serious.

3. The flight of foreign capital to this country is small as compared to the total values of securities listed on the New York stock exchange (\$107 billions). It is inconceivable that all the foreign owners would want to liquidate at once. The danger of a stock exchange debacle is not worthy of consideration.

4. There are three natural checks on selling:

- (1) declines in prices due to selling;
- (2) lack of urge to transfer funds abroad as the cost of transfers rises;
- (3) disparity of interest among the various foreign owners.

5. Some withdrawal of gold by foreigners would do no harm; and the government can control or stop large scale gold exports.

6. The foreigner who deals in this country should not be called on to pay the same taxes as an American does. We stand to lose, if foreign countries increase tax rates in retaliation.

7. All the State Department's work on reciprocal trade agreements may be destroyed, if the free money market is destroyed. We must also try to avoid international resentment, due to the belief that we are striving for isolation.

8. Emergencies require emergency action, but the United States should not anticipate an emergency which may never happen.

## GROUP MEETING

February 24, 1937  
9:30 A.M.

Present: Mrs Klotz  
Mr. Magill  
Mr. Oliphant  
Mr. Gaston  
Mr. Lochhead  
Mr. Haas  
Mr. Taylor  
Mr. Graves  
Mr. Upham  
Miss Roche  
Mr. Bell  
Mr. McReynolds

H.M.Jr: I'll dictate this. Then the others can take this up, see? Mr. Hull called me last night and said that, after thinking this whole question over - after thinking this thing over very carefully.... I mean I've got to repeat but what I am saying is ultra-confidential. He said that, after all, during the last three or four years, Agriculture has a number of times done things which were contrary to the State Department's policy, but the State Department has been able to live them down; and that if the Treasury wished to go ahead in this matter of trying to control foreign capital, their position would be the position as stated in Herbert Feis's letter. But he hoped I would be very slow about it and very careful, because he - if I didn't mind his giving me his personal opinion, this method that had been suggested of making it permissive and raising from ten to thirty - that he didn't think it would have the effect we wanted.

Therefore, his personal advice to me was that we go very slowly, but whatever we do, well, he'd go along in the sense as stated in Herbert Feis's letter. But his personal advice to me was to take it easy.

Now, I want Harold Graves to come in on this thing so we can clear that. (To Kieley) Ask Mr. Graves to come in.

(Graves comes in)

If you will sit down, please. There are two things I'd like to cover. Then I'll excuse you.

- 2 -

Then Mr. Hull said that he had been giving quite a lot of time to narcotics and studying it, and that he felt that the State Department did have a place in narcotics in the foreign field, and that they could be helpful.

So I said, well, I'd be very glad to sit down and spend an hour with Mr. Hull going over the narcotics situation, and he said that he didn't consider it was important enough to give it an hour. Well, what he suggested - he asked if we had somebody who could come over and sit down, or have somebody over here meet with their people and try to argue the thing out. And I said yes, I had such a person. He asked was he connected with Narcotics and Customs and I said no, it was Harold Graves. And I said they knew you over there - their Assistant Chief of Western Europe. He said that was fine and he would designate Mr. Hornbeck. I spoke to Wayne Taylor; it's entirely agreeable to him. And the way I gathered was that they would get in touch with you (Graves). I said if they wanted to know about you, he could talk to Ickes; I said he knew all about you. And Mr. Hull didn't.... But he's designated Hornbeck. And Taylor's entirely satisfied.

So if you'll carry the ball for us, but keep Mr. Gibbons advised, and Customs and Narcotics. So the ball is yours.

And would you just take a minute and tell the crowd of that raid we just pulled off in Seattle. I think they'd be interested.

Graves: Well, the telegram that I sent you yesterday reported the indictment of four Chinese narcotic distributors at Portland, and all were held under \$25,000 bond after indictment. The conversations that were intercepted out there...

H.M.Jr: Well, we'll skip that.

Graves: I was just going to say merely that that was the basis of the apprehension of a man that Mr. Hanks characterizes as the most important narcotics smuggler on the West Coast. He was apprehended while

- 3 -

making delivery personally to a friend of his, a white man, and Mr. Hanks indicates that this is the first time this man has himself ever personally made a delivery.

H.M.Jr: These were all Chinese?

Graves: All Chinese. And it was just that...

H.M.Jr: But I think it is evident that the size of the bond and all is quite significant.

Graves: Oh yes.

H.M.Jr: And you consider it most important.

Graves: Yes. As I said to you in my note, we were very optimistic that we could get other important fellows out there by the same methods.

H.M.Jr: This is Seattle, isn't it?

Graves: Well, that was Portland.

H.M.Jr: Could you (Gaston) get the Portland and Seattle papers and see how they handled the story?

Gaston: Yes. These indictments were yesterday?

Graves: The indictments, I think, were the 22nd, day before yesterday.

H.M.Jr: I'd be curious to see how Boettiger's paper handles it and how Mr. Fussell handles it.

Gaston: Yes, he was to go to work Monday.

H.M.Jr: Well, Harold, on this thing, if you don't hear today I'd simply call up Hornbeck.

Graves: Yes, I shall.

H.M.Jr: And will you keep me advised?

Graves: Yes, sir.

H.M.Jr: I'm putting my money in you.

- 4 -

Graves: All right. (Leaves)

H.M.Jr: The other thing, do you suppose that you gentlemen would be ready - would you people be ready at 3:15 tomorrow for me to have Landis and Eccles over?

Oliphant: (Nods yes) We've been trying to get something over to them today - this morning, I mean - about that.

H.M.Jr: (On phone) Mr. Landis and Mr. Eccles, whoever you can get first.

Well, we'll find out at 3:15 tomorrow and keep the ball rolling, huh?

Magill: I think it would be a good thing.

H.M.Jr: Well, I'll just wait until we clear those calls.

Will you (Oliphant) please get me a memorandum on - this is extra confidential, triple confidential - can the President treat the four cent tax on copper like he can others, reduce it by half? I'd like a memorandum by this afternoon - at the house, see?

Oliphant: All right. I'll have it to you by noon.

H.M.Jr: Would you? If there is any doubt, bring it in personally between twelve and twelve-thirty. I mean I don't want to rush you. He'd like to know. I'm seeing him tomorrow morning, so - I mean I don't need it until nine tomorrow morning. But he'd like..... I don't want anybody to breath a word of this to anybody.

He wanted to know whether he could - I mean treat it like any other. And then if it is, then you might go so far as to draw up a proclamation. What?

Oliphant: (Nods yes)

H.M.Jr: But I wouldn't let it get out of my own shop.

Oliphant: I'll handle it myself, and one other man.

H.M.Jr: Because yesterday we had to buy a hundred thousand sterling against copper that was exported from this country, and we actually have a shortage of copper in this country - 17 cent price abroad.

- 5 -

Lochhead: Mr. Oliphant would be interested in knowing these figures showing that sharp rate in the stock market - heavy buying.

Magill: They were?

Oliphant: Bought more than they sold?

Lochhead: Yes, considerably more.

H.M.Jr: Now, who wants to shoot something at me?

Magill: I have this letter from the Interstate Commerce Commission. They want to see us some time this week.

H.M.Jr: Well, I thought that if you didn't mind calling Eastman up on the phone and telling Eastman I have asked you to handle it, I'd like him to see you. Would you call him? Do you mind doing that?

Magill: No.

H.M.Jr: I'd just call him up on the phone.

(On phone) Hello? Good morning, how are you?  
(Short conversation with Lendis).

We'll get Eccles, then we'll go on. Or I can tell Eccles when I see him. Hello (to Operator). If you haven't got Mr. Eccles, let it go.

You (Upham) remind me when he comes over.

All right, now that's that. Will you (Mrs Klotz) put down 3:15 tomorrow. Open market at eleven and closed market at 3:15 tomorrow; how's that?

All right, what else? And you (Magill) are going to call up Mr. Eastman and invite him to come over.

Magill: Now, the only thing holding me up - I asked Kent to prepare a response to that 13-page draft, which curiously got into the President's hands.

H.M.Jr: Well, I leave it to you. There's no smut about it. We're going to be here all summer, so why worry?

Oliphant: Be here until dawn.

Magill: Well, I'll call him up today and start things.

H.M.Jr: What else has anybody got?

Haas: This man Curtis, you know, that was in to see you one time, came in Saturday again; wanted me to refer him to Ros.

H.M.Jr: What about it?

Haas: Well, that's the tax, you know, on sporting goods.

H.M.Jr: I haven't got my golf set from Spalding's.

Magill: Neither have I. I complained about it yesterday.

Haas: He'd like very much to see you.

H.M.Jr: No, no, I want my golf set first.

Magill: I want some of these baseball bats that are used on the sandlots and are being taxed.

H.M.Jr: All right, what else?

Haas: That's all.

Taylor: (To Magill) If they've owned them more than three years?

Haas: That's hard to administer.

H.M.Jr: Anything more except Joe Eastman and Curtis of Spalding's?

Magill: No. I've got a thing I want to take up with you on that matter you were speaking of yesterday. I've got it outlined any time you're ready. Do you want a memorandum on Mr. Kent's letter?

H.M.Jr: Yes, please.

Magill: I've got a digest of it here if you want it.

H.M.Jr: Swell.

- 7 -

H.M.Jr: Your friend Bill Nye has got the nerve to call me up at twenty minutes of six. (To Gaston)

Gaston: Gerry Nye? What did he say?

H.M.Jr: Coming down for the first time on a patronage matter. After his speech on gold.

Haas: Maybe that's why he made the speech.

Gaston: That's very appropriate.

H.M.Jr: I'm not going to be so very dumb as to turn him down and have him make another speech.

What have you got, Herbert?

Gaston: Nothing at all.

Oliphant: Nice called me yesterday about a job for a lawyer in his office.

H.M.Jr: Where does he stand on gold?

Gaston: Just that those two men for tomorrow....

H.M.Jr: All right. Did you say to the press last night that Wayne Taylor's not going to drop the price of gold and he's going to build a silver wall.

Oliphant: You know what Wayne told me? He said, "Oliphant, I got the business."

H.M.Jr: All right.

Gaston: I told Bob Kintner what I thought of some of his associates in New York.

H.M.Jr: Did you?

Gaston: Oh yes, I told him that after all this stuff they now come and ask us a question which is practically accusing you of lying in your press conference the last time. I said they got a nerve to put up such a question as that up to you.

H.M.Jr: What did he say?

Gaston: Well, he said he didn't know about this editorial stuff, of course, but he thought that something might - he thought the question wasn't just that direct, because he thought that they thought something might have come up since then. Well, I told him that if he printed that - they could ask about it in the press conference, but just for his own sake, if they printed the story in the meantime that that was the case, that it was being considered, they'd be making a mistake.

H.M.Jr: I'd like you to go through the Tribune for the last month and - I'd like a photostat of the editorials they have written about me the last twelve months.

Gaston: Yes.

H.M.Jr: Will you?

Gaston: Yes. They're a very bitter partisan bunch there.

H.M.Jr: While you're making the photostats, you might as well make three of each editorial. Will you?

Gaston: Yes.

H.M.Jr: Archie?

Lochhead: Nothing.

H.M.Jr: George?

Haas: Nothing.

H.M.Jr: Archie's got a haircut. I flatter myself and - George and I get a haircut once a month.

Taylor: Well, the commodity department over here - as I understand it, sugar will wait until next week.

H.M.Jr: Yes, sugar. Sugar will wait. Sugar and silver. I haven't heard Herman Oliphant laugh so in a year as he did last night when he called me up to say, "I've got Wayne Taylor to call up King about whether we'll have a silver wall or build one."

- 9 -

- Taylor: No, you were wrong about that, Herman, because he called me up. You got him to call me up.
- Oliphant: You're just spoiling a good story.
- H.M.Jr: Well, I guess I can tell a good story that happened. As a matter of fact, David, ex-Prince of Wales, ex-King of England, and I are in competition. This is very much in the family.
- Roche: Racing for Wally? - he (Bell) wants to know.
- Bell: For Wally?
- H.M.Jr: Not for Wally. Wallis Simpson has been staying with Mr. and Mrs. Herman Rogers, and Mr. and Mrs. Herman Rogers happen to be part of the Rogers estate next to Mr. Roosevelt. And two years ago Mr. Herman Rogers told his family that he would assume the sole responsibility of selling the Rogers estate. He's got it about half sold to Mrs. Simpson. The President is very anxious that Henry Morgenthau, in his capacity as Secretary of the Treasury, buy the Rogers estate in order to keep the records of the trees, which are being kept for twenty-five years. So it's going to be a snowdown whether we have a silver vault and keep the records of the trees on the Rogers estate, or whether Herman Rogers sells the place to Mrs. Simpson.
- And, giving the whole story, Mrs. Herman Rogers is the ex-wife of a former naval officer, and she and Mrs. Simpson used to be Navy widows together. Those that don't know what that means can call up the Chief of Naval Operations. He'll give you an idea.
- - Look at Miss Roche.
- Mrs Klotz: Blushing.
- H.M.Jr: Chief of Naval Operations. All right. Well, that's very much in the room.
- McR: You're infringing on the jurisdiction of another department.
- H.M.Jr: And some of the Roosevelt family are all "tizzy-wizzy" at the thought that David may be their neighbor. This

- 10 -

is no joking - no joking about this.

Gaston: You've got even stronger reasons for putting the silver depository on the Rogers estate, I'd say.

H.M.Jr: That's that. But it's very much in the 9:30 group. All right.

Taylor: I can tell Senator King that? I mean very confidentially.

H.M.Jr: Tell Senator King and also Mrs. - what's her name?

Taylor: Nellie?

H.M.Jr: Tell Nellie why the silver vault is dragging its feet.

We want to know (to Bell and Roche, referring to their aside conversation).

Bell: I was laughing because you were hesitating about the name.

H.M.Jr: Oh. Now, do you (Roche) want to follow with anything?

Roche: I'm demoralized completely, sir. Nothing to say this morning.

Gaston: Want that just for background?

H.M.Jr: That's for background only.

Dan?

Bell: No, I have nothing.

Roche: Demoralized too.

H.M.Jr: Mac?

McR: The only thing I have is this letter to George Haas from Harvard. I think George ought to answer it directly to this chap and tell him he'll be up there for a couple days sometime within the period.

H.M.Jr: All right, George.

- 11 -

Now, this thing of Captain Birkett in Arkansas and Joe Robinson - I've held it up here. Mac, is there any chance of making Birkett District Supervisor? Do you know anything about that?

McR: Of course. He's already in charge of one of the divisions. There is nothing to do unless and until the consolidation of those units is made. That can only be made after a law is passed. He is in charge of a unit now.

H.M.Jr: He is?

McR: Yes.

H.M.Jr: And there's nothing....

McR: All he's urging is that some time in the future, if, as, and when that consolidation of enforcement units is made, he be put in charge of one of the divisions.

H.M.Jr: Will you (Upham) explain that to Mr. Robinson's secretary and ask him if that is satisfactory? And if it is satisfactory I don't hear from you; it isn't, I do.

Upham: O.K.

McR: Birkett's a very decent fellow.

H.M.Jr: Have you (Upham) got it?

Upham: Yes. I've had this before.

H.M.Jr: Well, that closes that. What else? All right, thank you.

Wednesday  
February 24, 1937  
9:41 a.m.

148

Treas.  
Operator: Go ahead.

HMJr: Hello

James

Landis: Good morning

HMJr: How are you?

L: Fine, thank you.

HMJr: Look, to keep you posted on what we're doing on this foreign capital - Hull called me last night and, to boil it all down, he's now taking the position that he's going to stand by what Feis wrote us.

L: Yes

HMJr: And so, I also saw the President. I mean, this was before Hull called me. The President wants it to go ahead.

L: He does?

HMJr: Yes

L: Yes

HMJr: On some basis, he doesn't say what, but he wants us to go ahead.

L: Yes

HMJr: Now, I wondered if it would be convenient - if you could come tomorrow - Thursday - about three-fifteen to the office here - -

L: Gosh, I've got to be out of town for the rest of the week.

HMJr: Oh

L: Could I send anybody else?

HMJr: Surely, surely - But we won't be ready before that.

L: Yes

-2-

HMJr: We've got a new angle on it.

L: You have?

HMJr: I tell you, I'll tell Magill to get in touch with you and give it to you before you go, and get your reaction.

L: All right.

HMJr: What are you leaving on, the Federal tonight?

L: Yes, I'm going up on the Federal.

HMJr: Well, Magill will get in touch with you before nine o'clock tonight.

L: And you are not actually going to the Hill this week, though?

HMJr: Pardon me?

L: You are not going to the Hill this week?

HMJr: No, no, no, no, no -

L: No?

HMJr: No, no, no -

L: All right.

HMJr: This thing - the more I see it the more difficult it gets.

L: Yes - The - don't - don't the attitude of the foreign governments here help the Secretary?

HMJr: How do you mean?

L: Well, you saw the British statement - and - ?

HMJr: Yes - well, we -

L: - and the Belgian Statement and the Canadian Statement.

HMJr: Yes, well we've cabled for the British Statement -

L: Yes

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HMJr: And we haven't got it yet.

L: Yes

HMJr: When we get it I'll send it over to you.

L: That ought to help the Secretary a bit, I should think.

HMJr: I should think so. Then - and particularly that they don't ask us.

L: Yes

HMJr: What?

L: Yes

HMJr: Yes - Well, Magill will get in touch with you and then, you send anybody over you want and - but we won't do anything until you get back.

All right.

HMJr: You'll be back Monday?

L: Yes, I'll be back Monday.

HMJr: Thank you. I'll be at Harvard Saturday.

L: I may run into you up there.

HMJr: Good! Are you staying with Conant?

L: No, I'm not.

HMJr: Oh - Well, I'm going there - following your advice - I'm going there for breakfast.

L: Good! (Laughs)

HMJr: And what do they eat Saturday, do they eat the beef in the morning or at night?

L: I think they eat the beef of a night.

HMJr: Fine

L: (Laughs) Pie in the morning.

HMJr: Pie in the morning?

L: Yes

HMJr: All right. Well, I'll be seeing you anyway.

COPY

Note in Secretary's  
handwriting:

February 24, 1937

"Mrs. Klotz  
Speak to  
me about this."  
"M"

For the Secretary:

When I attended the meeting<sup>2-23-37.</sup> at which the experts reported to you and Landis and Eccles on "hot money" I found myself very skeptical of their recommendations. In view of their extended and intensive study of the subject, however, I was reluctant to make objection and become the usual nuisance.

As a later press conference, when one of the newspaper men asked if any advice on the matter had been sought from outside private interests, and was answered in the negative, I feared a "dirty" story to the effect that here, in a matter peculiarly the concern of the financial community, the Treasury was not following its usual policy of outside consultation, which it is generally understood we follow. Perhaps my fear was based on a feeling that the experts were somewhat academic in their approach. There was no such dirty story, however.

In listening since to the Tories with whom I associate, my own feeling has been confirmed that "hot money" should not cause any great amount of worry, that the pro-

-2-

posals advanced so far to deal with it would be ineffective and perhaps penalize the wrong people rather than the right, and would raise questions much broader in scope than the immediate one of reducing the flow of gold. I think some of these people, who have been students of the subject for years, are thoroughly honest and disinterested in their attitude.

I have kept quiet in the meetings I have attended, but have argued my point of view some with Eccles privately, mainly by way of raising questions for him to answer.

Upm

MEETING WITH EXECUTIVE COMMITTEE OF  
FEDERAL RESERVE OPEN MARKET COMMITTEE

February 24, 1937  
11:00 A.M.

Fin  
154

Present: Mr. Taylor  
Mr. Upham  
Mr. Haas  
Mr. Lochhead  
Mr. Burgess  
Mr. Bell  
Mr. Harris  
Mr. Goldenweiser  
Mr. Eccles  
Mr. Szymczak  
Mr. Piser  
Mr. Chester Davis

Burgess: The market has been a little better since you met here last. It seems to have leveled off. It hasn't gone up any particularly, but the long bonds have had a little gain and the notes seem to have sort of steadied at about this level. The new one and a quarter notes have held around par, par one and two. The note market is still rather vulnerable and hasn't got much steam in it, but the bonds look a little better.

That's been simultaneous with a little improvement in the corporate market. The corporate market has been sliding pretty steadily until the latter part of last week, when it stiffened up. Been a little recovery of a point or so in some issues, so there is some feeling around that perhaps the adjustment has been made, at least for the time being, to new money conditions.

But there is no very considerable change. There is no change in level really since you met here last. The only change is in the feel of the market being a little steadier.

H.M.Jr: We've got to decide three things today. We'd like your advice. They really all pretty much go together. One is, shall we start next week selling 50 million dollars worth of bills into the 15th of June until we have sold 300 million? Two, should we call the April maturities and refinance them on the 15th of March? Three, should we ask for any new money? If we decide those three things - I mean we should

- 2 -

decide to do all of them, then what kind of a piece of paper we give for the April maturity; we wouldn't have to decide that until next week.

Burgess: In some ways, the easiest way to discuss those would be in the reverse order, wouldn't it, because the asking for new money is in a sense the key to what you'd do.

H.M.Jr: Well, I don't care how, but that's the problem and we've got to make up our minds today on that.

Eccles: Well, the situation with reference to new money is about like it was a week ago, isn't it, Dan?

Bell: Not changed materially. The only point in the picture where we might at all be worried would be the end of May, where the balance might possibly drop below five hundred million dollars. And if it did drop down there and then it looks as though we needed some money, we could have a little hundred million dollar issue of bills in May and put them in September.

Eccles: Yes. Well, I still feel that it would be much more desirable to get along without new money this time. I think it would be very helpful to the market. I'd like to suggest the refunding of the April maturity in March.

H.M.Jr: Well, of course, what we have done here is - I have had a policy that we wanted to keep a billion dollar balance. Well, we let that go by the board and we are running much closer to the wind than we ever have before, and I don't particularly like it. But on the other hand, if we kept up our balance to a billion dollars we'd have to ask for more new money and we might tighten things up and see money rates go up, and we'd all get blamed for it.

Eccles: It just isn't the best time to ask for it. Then, with the tax money coming in, if it should be more than you expect, why, you may not need as much new money.

H.M.Jr: As I say, I don't like to run as close to the wind as we are now, but we're doing it; and as far as

- 3 -

the Treasury goes, we've about made up our mind that by using the bill market, why, we can squeeze through to the 15th of June without asking for new money. As I say, we are doing it only for one reason, and that is not to aggravate the situation between now and the first of May, while you fellows are raising your requirements.

- Eccles: Give the market a chance to adjust itself to these increases, and of course after the first of May we'll be able to know fully just what the effects are and what the situation is at that time.
- Golden.: With your deficit not increasing any longer, you haven't the same motive for keeping your billion dollar balance intact as you did before.
- H.M.Jr: No, but it was so inexpensive.
- Golden.: Yes.
- H.M.Jr: It cost us about a million and a half, two million dollars, a year - that billion dollars - which was awfully cheap. I mean that's what it did cost us.
- Golden.: While you had to be constantly making new offerings in large amounts.
- H.M.Jr: And we couldn't tell. I always wanted to be in the position that if the market tried to hold me up and I couldn't borrow for three months, I wouldn't have to borrow for three months. But, as you say, that situation seems to be passing. Huh?
- Golden.: Seems to be.
- Eccles: Do you think, Randolph, that the bill market would be able to take fifty million commencing next week at about the present rates?
- Burgess: Very nicely, I think. I think the June bills will sell at around a quarter or even less. As a matter of fact, there are transactions now in June bills. There were some this last week at .05. Of course, that doesn't mean that you can sell new bills at that rate. But I would expect them to go at around a quarter, if not under that.

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Missouri has a tax law which makes it advantageous for people in Missouri to hold June Treasury bills, so that you could expect some substantial bidding from that quarter.

H.M.Jr: When does that Illinois....

Taylor: Illinois is April first.

Eccles: What's that, a tax on deposits?

Taylor: I think so. On bank deposits.

Burgess: Personal property tax of some sort.

H.M.Jr: Would the State of Missouri buy altogether fifty million dollars? Wouldn't that pretty well mop them up?

Burgess: Well, they'd be in on each offering for ten or fifteen million, I guess. It's an item. Then there are corporations that want short bills; so there would be a very good demand for those bills. Now, it may affect a little the rate on the longer bills, but I don't think very much. That is, I think that will stay under a half.

H.M.Jr: Well, I'm going - I mean I'm planning this whole thing on the assumption that we can sell these 300 million on top of the nine months.

Burgess: Yes, I have no question about that.

H.M.Jr: You do or don't?

Burgess: I have no question about that, especially if you are not asking for new cash in the March offering. That will make a difference. That will make a real difference in the feeling of the market about the bills.

H.M.Jr: We had a little meeting last night, and we feel that by using the bill market and perhaps starting in May to sell into September, why, we can squeeze through. Not have too much of a margin, will we?

Bell: No.

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- Eccles: And selling a hundred million in May if necessary - the last of May, for September maturity.
- H.M.Jr: Start whenever necessary after the first of May. I mean we wouldn't start before.
- Bell: That's right.
- H.M.Jr: But we'd start any time starting after the first of May.
- Eccles: You may find after you sell your three hundred of bills maturing in June that the situation is such that you want to continue to sell them instead of stopping after selling for your....
- Bell: You mean start the middle of April and put them into September?
- Eccles: Yes. Either new, if you need new money, or the outstanding bills as they come due; instead of nine months, put some of them in September. Of course, you can cross that bridge when you get to it.
- H.M.Jr: Well then, the only other thing is the question of calling the April note on the 15th of March.
- Eccles: You feel there is an advantage, don't you, in keeping them on a quarterly period, inasmuch as....
- H.M.Jr: Well, what's this, the fourth or fifth meeting?
- Eccles: Third or fourth.
- H.M.Jr: I mean we'd like to get it over, concentrate on the thing, clean it up, and then we'll go on to something else. I mean I like to get it behind us.
- Burgess: Well, I think it particularly advantageous to get it behind you, in connection with putting out these new bills. It tells the market the whole story, so they know what the situation is and they can be prepared to deal with it and have it well out of the way before May first - the whole thing laid out.
- H.M.Jr: But we agree on this three-way program. I'd announce

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at my press conference that this is what we're going to do and the only thing we haven't decided is what kind of a piece of paper we'll give the April holders in exchange for their notes. And that would give the market a week to shake down.

Burgess: I think that's a good program.

H.M.Jr: Then we'd announce it on the eighth. That's a Monday, huh?

Burgess: (Nods yes)

H.M.Jr: Exchange. And let it run through until Thursday - Thursday or Wednesday.

Burgess: I've gone into that.

H.M.Jr: That's plenty of time to handle it.

Burgess: If just exchange, yes. There's no question about padding and no question about going over subscriptions on an exchange. That is just a simple mechanical operation.

Eccles: You won't need so long then, will you?

Burgess: If he does it on March eighth, that's all right.

H.M.Jr: Open three days, two days.

Burgess: Three days is a little better, I think.

H.M.Jr: You lean a little towards doing the April in March, don't you?

Burgess: Yes. I think that you have announced from time to time that as far as possible you were going to do it on quarterly dates. I think that's a pretty good principle. Now, while on this particular occasion it might be a little easier to price your new issue if you waited until April, the market has settled down a bit since we were here last, and I think the principle of doing the thing on quarterly dates offsets any advantage there would be in waiting, although I see the point of waiting and I was at

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first wholly sympathetic with that while the market seemed to be very unsettled. But right now the market seems to be in very good shape to take an issue.

- Eccles: Who are the principal buyers of long bonds? Bank buying?
- Burgess: No, not banks much.
- Eccles: I mean in the interior banks.
- Burgess: Oh, a little scattered buying. Insurance companies go into the market every once in a while and take a little jag of them.
- Eccles: Mostly insurance companies are the investors?
- Burgess: Yes, but there is still some bank buying here and there.
- Eccles: You see, since we have announced the increase of reserve requirements, since January 30, the ten-twenty year bonds have increased seven thirty-seconds, so it did to the long market about what we expected.
- Burgess: Intermediates have gone off about the same, haven't they, Marriner?
- Eccles: Yes. The less than five year ones have gone off seven, and the five to ten have gone off five thirty-seconds, but the long ten-twenty's have gone up.
- H.M.Jr: But your note market is shot. I mean where we got a five year at one and a quarter, we'd have to do it at one and a half now.
- Burgess: That's right.
- Eccles: Yet they haven't gone off a great deal. It's just a weak market.
- H.M.Jr: I mean we couldn't sell a five year note unless we paid one and a half.

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Burgess: That's right.

H.M.Jr: What?

Burgess: That's right.

Eccles: Don't you think there is another reason for it, though? The exchange privilege is far less certain. In other words, people were.....

H.M.Jr: You know what's happened to your premium of your Aprils. They've come right up again.

Eccles: What's that?

H.M.Jr: Come right back up again.

Eccles: Yes, because they know - they expect to get the right, of course, to take some of the security bond.

H.M.Jr: I mean for a while it disappeared and now it's come right up again.

Eccles: Of course, if it becomes apparent, I think, that at each note maturity there is going to be a refunding and an opportunity to convert, they'll have a premium. But as you get surplus revenue and begin to retire some of them, don't you think - don't you think that has had an influence on the note market generally, the thought that during the next five years there will be very little opportunity to convert, and that in itself has been worth fully one - has been worth a point? I think that, as well as the increase in reserves, has been a big factor in the note market.

Burgess: Yes, I think it is quite extraordinary how well the note market has held up under present circumstances.

H.M.Jr: I think there's been a minimum disturbance.

Eccles: The New York banks are getting gradually adjusted, so as the reserve increase goes into effect they will be prepared for it.

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- Burgess: For the March first increase, there is only one bank that shows any shortage to amount to anything - last night or the night before last - and that was the National City, 24 million. But they had a whole wad of Treasury bills, eighty million of call loans, and a portfolio of acceptances, so there's not the slightest difficulty about the March first increase. Now, for May first there are still some adjustments to be made, but the way it's worked out for March first makes it clear that they'll be able to work that out without any serious difficulty.
- Eccles: But the deficiency is getting less each week.
- Burgess: Yes, that's right.
- Taylor: It hasn't affected the call money market yet, has it?
- Burgess: No, everybody - quite a number of clearing house banks have been talking about - have had some meetings about what to do about the call rate. I think at present the inclination is just leave it alone, the idea being that anything they did now would be rather artificial and they'd better let nature take its course; that if they should put the rates up now they'd be pushing them up ahead of the trend. I think their feeling is, too, that if they pushed those rates up they'd draw out-of-town money and their own call loans would go down, and their earnings would decrease. So that is the way, of course, your - a way, of course, your New York position could be equalized: if the New Yorkers are slack, get those rates up a little bit and out-of-town money would begin to come in.
- H.M.Jr: Well, there isn't much argument here today, is there?
- Burgess: Hard to get a fight here today.
- H.M.Jr: What?
- Burgess: Nice place to rest.
- You asked us last week about selling Treasury bills for book credit.

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H.M.Jr: Yes

Burgess: And we have explored that some. I think that both the Board people and ourselves see no objection to that, if it is desirable on certain occasions to do it. Of course, it isn't quite in accordance with the practice and the usual form on Treasury bills. They are regarded as a cash obligation. But that's rather a formal matter and we don't think that needs to stand in the way of doing it if we want to from time to time.

H.M.Jr: Well, we wouldn't want to do it on the first issue.

Burgess: No. If you're selling an issue that falls right around the 17th of March, it might be well on that occasion to do it.

Bell: We might want to do it on the 17th and 24th.

Burgess: Yes, depending on what your cash position looks like.

Bell: That's right.

Eccles: It would certainly give you flexibility in regulating or controlling the balances that you've got with the Reserve Banks, wouldn't it?

Bell: That's right.

Burgess: That will be more important after May first.

Bell: Yes, I think that's right.

Burgess: On tax dates after May first.

H.M.Jr: Well now, I'll - let's put it this way. Does anybody have any suggestions why we shouldn't do the three things that I spoke of: No new cash, call the April note on the 15th of March, and 300 million bills?

Eccles: Commencing next week?

H.M.Jr: Uh-huh.

Eccles: You'd go right through the 17th?

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Szymczak: Every week.

H.M.Jr: Every week until we'd sold three hundred million. We'd do it for six weeks. I don't like to break the thing. I mean it attracts too much attention. It might be interpreted as a sign of weakness. We ought to be strong enough that we could go right through and sell for six weeks.

Eccles: Well, giving book credit would help the situation if it happened to be that your balances were - due to taxes, were abnormally high and that it reduced reserves accordingly. It would immediately offset it so that you could go right through without having any effect at all on the market.

H.M.Jr: We'll watch it very closely.

Bell: There being two issues in the picture, we could give book credit on either one or both, so that we could take in effect - put 50 million dollars credit or 100 million dollars credit, and then pay off the maturing bills out of our cash balance, which would work both ways really.

Eccles: Well, it's nice to have everything so agreeable, isn't it?

H.M.Jr: Well, how many meetings has it taken?

Eccles: Four or five.

H.M.Jr: Well, the only other thing, while you're here - does anybody want to offer any ideas what kind of a piece of paper we'll give in exchange for these April notes.

Burgess: Want me to start?

H.M.Jr: Sure.

Burgess: Well, I - my present view is that it would be wise to offer additional amounts of the bond that we issued in December - of the 2½ percent '49-'53 bond. That is in the group of bonds that have stood up very well, for which there is a good demand. If you go into much shorter bonds than that, you get into

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an area where the price readjustment has been going on. I think there would be no difficulty about selling an additional amount. It is within the range where it gives you maturities that you could call or refund with the money that may come through in those periods.

Now, the alternative....

H.M.Jr: Wait a minute, you didn't say how much premium.

Burgess: Well, you set it at a premium - that is something you can't do until just the week ahead of time, just a few days ahead of time.

Eccles: What's today's premium on that?

Burgess: You can sell a half to three quarters of a point as premium.

H.M.Jr: What's worrying me - if we sold it at 101, there would be five million dollars. What would we do with the profit?

Burgess: Well, there's another argument for using the obligation. It's just as good for you as the alternative. The alternative bond would be a little longer maturity, say a '50-'54. But I can't see any advantage whatever to the Treasury in that additional year on the maturity. It is one year shorter - longer on the call date. You couldn't call it in as early, you couldn't refund it as early, and the additional year on the maturity is no great advantage, I think.

H.M.Jr: Well, Burgess, how much - I've never done this since I've been here - how much premium, how many points difference between the market and what we'd ask - price the new bond? How much spread should there be?

Burgess: Oh, there ought to be at least half a point on a refunding.

H.M.Jr: Half a point?

Burgess: Yes, you can cut it fairly close on a refunding of this sort; you don't have to offer a point. We usually offer a point on a bond issue where you are

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selling it for new cash. But on a refunding half a point is adequate.

Now, you have to remember that the Aprils on March 15 are worth a quarter of a point - just the interest from them.

H.M.Jr: We only pay them interest once.

Burgess: Yes. Well, if you're refunding in smaller coupons, you've got to offer something that's valuable enough to make up the difference.

H.M.Jr: But we wouldn't pay them double interest.

Burgess: No, no, we'd pay them just one interest.

Eccles: You mean the bond would have to be worth the quarter point before they get any premium. The bond would have to be worth a quarter more than par to offset the other.

Burgess: Otherwise they could cash it in and buy something when they got the cash.

Eccles: Yes.

Burgess: But if you had something that was worth three quarters of a point premium, it would go all right; that is, a quarter of a point for the interest and half a point velvet. You could even cut a little finer than that.

Eccles: The '51 is worth close to that.

Burgess: '51 is worth 101-14 - the '49-'53s are worth 101-14.

Eccles: No, I mean the '51 call date.

H.M.Jr: You mean a new bond.

Eccles: I was just thinking you wouldn't want to put out a new bond on this small issue.

Bell: '51-'55...

Eccles: I wasn't thinking of....

Bell: ...selling on a 2.46 basis.

Eccles: I was thinking of a two and a half bond with a '51 call date - would give you just about the premium that you are talking of here.

Piser: Be just about a little less, I should think. About a half point premium.

Eccles: On a '51?

Piser: On a '51 call date.

Burgess: Of course, the maturity - if you look at this chart, any maturity beyond '51 ought to sell on better than a two and a half percent basis. The line crosses in '52. Of course, this last issue is perfectly cock-eyed. It shouldn't be selling where it is on the basis of the maturity. It is because the market prices it on the call date. And the minute you had any change in interest rates, so that they began to price it on the maturity date...

Eccles: And it gets below par; that's where it will go.

Burgess: And the thing drops two points right off the bat. So I don't see why the market likes this bond. But they do. It doesn't make any sense.

H.M.Jr: What?

Burgess: It doesn't make any sense.

H.M.Jr: It is a popular bond.

Burgess: It's a very popular bond, but it doesn't make any sense.

Piser: It is still high, even on the call basis.

Burgess: Yes.

Eccles: That's the two and a half.

Burgess: People don't like to buy premium bonds. Just a matter of bookkeeping; put premiums on their books and write them off. Perfectly silly thing.

H.M.Jr: Well, do I gather your inclination today is we use this two and a half bond?

Burgess: Yes.

Eccles: Sell it at a premium - whatever premium the market would call for at the time.

Burgess: That's right.

Eccles: Giving - you think about half a point is all that it's necessary to give.

Burgess: That's right.

Eccles: On the conversion.

Burgess: A little over half a point.

Bell: Have to allow for a little sagging after you make your announcement.

Burgess: Give them an additional amount.

H.M.Jr: Allow them their interest the 15th of April?

Bell: Be a nice premium.

Burgess: Well, you can do that or not, just as you wish; do that either way, allow them the interest or cut it off, and you can price it accordingly, either way you want to.

Harris: May I suggest that the market is now - I think the April notes are selling about 22 thirty-seconds above a no yield basis. If the  $2\frac{1}{2}$ 's were priced at par and three quarters, that would be a difference of about 22 thirty-seconds.

Burgess: That's right. Not allowing them any interest.

Harris: No, exchanging them flat on the 15th.

Eccles: About 22 thirty-seconds is what you would be allowing.

Harris: That would be half a point gravy, so to speak, and six or seven thirty-seconds interest.

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- Eccles: If you don't give them that, then they are selling a little bit too high today, aren't they?
- Harris: Yes.
- Burgess: Well, I'd try to cut it a little close, because I - these rights ought not to be worth as much. You ought not to have to give as much gravy if you are not raising new money. We have been pretty generous with the market, and it was a wise policy, but you were raising new money all the time and you had to appeal constantly to a new market. But if your debt is steady and there are prospects of beginning to retire it, you don't have to make so large a present to the market; you don't have to put as much honey on it to attract the bees.
- H.M.Jr: Well, unless somebody has got something else, Marriner, I think we've gone as far as we can.
- Eccles: I haven't unless some of the rest of you have got some questions. I'm well satisfied personally. I think this is fine. It pleases me a hundred percent.
- H.M.Jr: I should think you would be.
- Eccles: Why?
- H.M.Jr: We changed - if we changed and came out on a billion dollar issue on the 15th of March, and the rate came up, and we just had to raise the money, you'd have to go up and explain to Congress. I've already done that. You'd have to explain all over again.
- Davis: You'd have to go up and change your testimony.
- Eccles: Yes.
- H.M.Jr: Well, I want to take pity on the Congressmen, so I won't do that.
- Eccles: Well, I'm glad you've got pity for somebody. Anyhow, I don't care who, just so the program's right.
- H.M.Jr: I talked to the President about this yesterday and I said, "Talking seriously, this is important - demonstrates how important it is that two organizations

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work together, because the one can absolutely nullify the other." I mean we've just got to work together.

Eccles: Yes, sir.

Bell: On the matter of these rights, I'm wondering if we haven't about reached a point where it would not be a bad policy if the Secretary would announce very definitely that the banks couldn't in the future, certainly after this refunding, expect an exchange issue for the entire amount - cut off some of this negative yield business.

Eccles: You mean before this?

Bell: Yes, I think it ought to be done a month before.

Eccles: You mean before or after this March 15?

Bell: This announcement would not apply to the April, because he would say at the same time that he was going to offer full exchange for April. But let it apply to the September, which is now selling for a two dollar premium.

Eccles: Got to be done some time before. You always treat your customers right, give them advance notice, so...

Haas: How about giving them a leak on that, Dan?

Burgess: Let's see, your next maturity is in September, isn't it, Dan?

Bell: Right.

Burgess: You think you're going to want to retire some of those for sinking fund?

Bell: I think that all depends on what we do in June.

Burgess: Of course, I've never been worried about these rights things as much as some people have. After all, it's a child of these very cheap money rates, largely. You get money rates up a little bit, short term money rates, and these short Governments would be worth a

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little something. The giving of the exchange privilege, after all, doesn't cost the Treasury a thing, but on the contrary it makes its short term obligations sell at better prices, so that it saves the Treasury money, and I don't see that it does a great deal of damage. Now, if the Treasury program requires that you shall retire some maturing obligations for sinking fund, that is another question. But if there isn't any question from the point of view of the Treasury program of changing it, I don't see any necessity from the point of view of the money market of doing it.

- Bell: What I am thinking of is supposing we announce on September eighth that we are only going to allow a privilege of exchanging eighty percent of the outstanding notes.
- Burgess: Why should you want to do that?
- Bell: Well, for some reason, of course: that we are going to retire the 160 million through sinking fund or some other operation.
- Burgess: Now, aren't the holders going to have a kick and say, "Why didn't you tell us this? We paid a dollar and two dollar premium for this exchange privilege. Now you've deprived us of that." And I don't think the Secretary ought to be put in that position at any time.
- Eccles: Justly or unjustly, some of them say that.
- Bell: No justification, because you've really made no promise or obligation.
- Burgess: On the other hand, if the Secretary announces that at the present time, it will immediately affect adversely your whole note market.
- Eccles: That's why I asked you if you meant it should be done now. It seems to me you might wait until June.
- Bell: That's sufficient time.

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Eccles: I would suggest that nothing be said about it, certainly, at this time. Wait...

Bell: ...until after this refunding.

Eccles: Yes, after this refunding. And when your June - by the time of your June financing, say something about it.

H.M.Jr: Of course, Bell approaches this from a purely disinterested viewpoint, you see; we don't own any notes. I just knew what Burgess would say.

Burgess: As a matter of fact, I never thought of that.

H.M.Jr: How many do you own - the System and the banks and everybody else?

Burgess: Well, we've been very generous in our support of the note market.

Taylor: There is a perfectly logical reason for doing it, which is that subscriptions for cash are at such a low rate the people are kidding about it like the devil, and you do give an unnecessary premium to the original holder.

Bell: As a matter of fact, they drive your rate up by offering those high rights. Never able any more to cut the rate thin because of those rights.

Burgess: No, I don't think that hinders your cutting the rate thin at all.

Bell: Sure, Burgess, we used to finance - used to get by with eight or ten thirty-seconds; now you've got to give a dollar or more.

Burgess: If the Treasury is in a position where it is not asking for new money, I think you can cut the premium very thin.

Bell: I question whether you can cut it thin if your rights are so high; maybe that will drive your rights down, I don't know.

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Burgess: I think it will drive them down.

H.M.Jr: Well, that's a pleasant worry.

Burgess: That's a swell thing to be worrying about.

Bell: Well, there wasn't any controversy here; I thought there ought to be something.

\*aylor: Like to bring Henry Murphy in; he'd start something.

H.M.Jr: Well, do you think we ought... We'll have to make up our mind next week what we'll do. Do you fellows want to come over once more?

Eccles: Well, I don't think it is necessary, unless you...

H.M.Jr: Well, I'd like Burgess to come down anyway.

Eccles: Well, if he's coming down and if we'll be here, we'll be glad to come over. I don't think it would be necessary to ask Fleming; he's not feeling good and he's had the flu, and he said unless it was absolutely essential he'd prefer not to make the trip down from Cleveland. I told him it wasn't. So I wouldn't ask him to come down or ask George unless...

Szymczak: Is he coming down next week?

Eccles: Do you know, Randolph?

Burgess: I think he may be back next week, but I don't know just what day he comes.

H.M.Jr: Well, even if it's only.... The thing may change again. I'd like very much to have a - I'd like to have another meeting a week from today. I mean it hasn't every time been so easy; when we first started it wasn't so clear.

Eccles: It's been a question of clarification through the general situation.

H.M.Jr: If you don't mind, I'd like your crowd to come over once more.

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Eccles: All right, that will suit - it's convenient for us. I don't know whether these men will be here or not, next week.

Szymczak: Oh yes.

Eccles: You'll be here. You be here, Chester?

Davis: Yes.

Eccles: If not, Ronald or maybe Joe Broderick. They're both away. But at least three of us will come over.

H.M.Jr: Good. And then I'll announce tomorrow morning what we are going to do - everything except what the exchange will be.

Burgess: All right.

H.M.Jr: That gives them a chance on it.

Burgess: That's fine.

Eccles: Have you sold a bonded premium...

Bell: Ever?

Eccles: Recently.

Burgess: Not recently.

Eccles: I didn't mean ever.

Burgess: Not for several years.

Bell: About '28 or '29.

Burgess: It won't bother anybody.

H.M.Jr: All right. Thank you for coming over.

Railroad Retirement Act

February 24, 1937

Magill's memo to Secretary reporting on Latimer's conference with Magill and Oliphant when Latimer submitted three proposals: that funds from Social Security be diverted to pay part of cost of railroad retirement allowances; that administration of railroad retirement taxes be transferred to railroad retirement board and that Carriers Taxing Act and Railroad Retirement Act be consolidated. (p. 167)

March 1, 1937

Magill's memo to Secretary reporting phone conversation with Latimer concerning Dow-Jones ticker report of agreement between railroads and employees on retirement plan. Bk 27:4M

March 2, 1937

HM, Jr saw President and gave him memo on railroad retirement allowances in which it was suggested that the President call a meeting to discuss it. President suggested that Altmeyer, Latimer, Magill, Bell and HM, Jr discuss it and then report back to the President. p. 131

March 2, 1937

Meeting, as suggested by President, in HM, Jr's office. Altmeyer said Pelley and Harrison, railroad representatives, went away from conference with President on Friday with understanding that President had committed himself to a plan for extending the protection of Social Security to railroad industry which would be financed out of additional taxes than those provided in Social Security Act. Draft of telegram to railroad people prepared for checking with White House. pp. 189, 192

March 3, 1937

Copy of Latimer's memorandum on the Railroad Retirement Situation. p. 128

March 4, 1937

HM, Jr's telephone inquiry of Latimer to know whether telegram had been despatched. Latimer said he had been trying to find out from McIntyre. p. 310, 332

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March 4, 1937

HM, Jr's telephone conversation with President. President said he would give the telegram to McIntyre. p. 366

March 5, 1937

Magill's memorandum to Secretary reporting on events to date on the Railroad Retirement matter. HM, Jr took this to Cabinet today. Bx 58: p. 38

March 6, 1937

Copy of Gaston's memo to Magill in which he reported that Steve Early asked for some statement he could make to Pelley and Harrison to stall off publicity.

March 8, 1937

Mr. Haas' memo to Magill giving an analysis of the proposed railroad retirement bills.

March 8, 1937

Magill's report of conference on the legislation. Treasury and Budget estimate Treasury will lose serious amount of revenue from adoption of the plan. Copy of this report went to President today.

March 8, 1937

Mr. Reagh's memorandum to Haas, disagreeing with the actuarial estimates of the Railroad Retirement Board.

March 16, 1937

Magill's telegram to President that rates of tax in proposed legislation are much too low to meet requirements and Treasury, Budget and Social Security think it better to continue present legislation.

March 17, 1937

Mr. Magill's memorandum reporting his conference with Congressman Doughton in which he told Mr. Doughton that our calculations indicate that the proposed bill would fall short by several hundreds of millions of dollars of meeting requirements of the retirement act. Mr. Doughton recommended Treasury press announcement to this effect. Altmeyer also agreed on having a press statement.

March 17, 1937

Magill's memorandum reporting Latimer's telephone call in which the latter said he had heard from newspaper men that we disapproved of the agreement between the Carriers and the railroad men for retirement allowances. Magill explained to Latimer that Treasury did not disapprove of the agreement but that our calculations showed returns were too low to pay the agreed allowances.

When Magill reported this conversation to the Secretary, HM, Jr asked Magill if he had checked with Senator Harrison, Congressman Doughton and Mr. Altmeyer and Magill said he had with the exception of Harrison, who was out of town.

March 17, 1937

Record of Magill's conversation with Mr. Latimer, giving text of press release.

March 17, 1937

McIntyre's telephone call to Magill saying President would prefer that no statement be made or, if it should be, that it be made clear that calculations of insufficiencies were preliminary actuarial computations. Magill called his attention to fact that statement was almost exact wording as suggested by the President. McIntyre asked Magill to call HM, Jr. Magill did so and HM, Jr then telephoned the President.

March 18, 1937

Press release 9-86.

March 18, 1937

Mr. Haas' memorandum to Mr. Magill in which he states that the Treasury actuary has found information which indicates positively that the Railroad Retirement underestimated cost of the proposed bill.

March 18, 1937

Magill's memo in which he reported that, acting upon the Secretary's suggestion, he had informed Mr. Altmeyer that the President had approved the form of our press release. Magill telephoned Doughton and suggested a conference with him and Senator Harrison and Doughton thought that was a good idea.

March 18, 1937

Memorandum of conference held in Magill's office on March 16, 1937 to discuss the proposed railroad retirement bill.

March 23, 1937

Magill's memorandum of luncheon meeting with Mr. Altmeyer in which Altmeyer reported that his actuary, Mr. Williamson, had computed the cost and found it would run between 8 and 9 percent of the railroad payrolls and thought Latimer's estimated retirement age of an average age of 70 was too high.

March 24, 1937

Copy of the bill entitled "An Act to establish a retirement system for employees of carriers subject to the Interstate Commerce Act, and for other purposes," approved August 29, 1935.

March 24, 1937

Mr. Reagh's memorandum of probable cost of the proposed railroad retirement Bill.

March 24, 1937

Magill's memorandum of his conference with Representatives Doughton, Cullen and Cooper at the Capital at 2:15 p.m. Doughton stated there was disagreement between actuaries as to probable cost and Cooper remarked that the Ways and Means Committee always accepted Treasury's estimates.

March 24, 1937

Meeting in Senator Harrison's office following meeting with Representatives Doughton, Cullen and Cooper. Doughton suggested that principal questions at issue should be referred to the President. Agreement reached that legislation should not be introduced until next week.

March 25, 1937

Magill's telephone conversation with Secretary reporting conference on the Hill 3/24/37.

March 25, 1937

Latimer's call on Mr. Magill to discuss his calculations of the necessary tax. Latimer reported that Harrison had given him the impression that the President approved of the agreement in the form in which it had been made.

March 26, 1937

Magill's memorandum in which he stated that Altmeyer's actuary had reported that after conference with Mr. Glenn, the actuary for the Retirement Board, both men agreed there was no evidence to show any differential in favor of the railroad employees prior to the year 1890. Altmeyer thought, therefore, present tax rate of 7% should be retained.

March 31, 1937

Magill's report of conference between HM, Jr., Senator Harrison, Congressman Doughton, Mr. Bell and Mr. Magill. Harrison is to confer with George Harrison, representing the brotherhoods, and Mr. Pelley, representing the railroads to have them accept proposed compromises on rate schedule.

March 31, 1937

Press conference following meeting of Senator Harrison and Congressman Doughton in Secretary's office.

April 1, 1937

Magill's memorandum of conference with Senator Harrison and Messrs. George Harrison and Pelley. Last two will consult their respective groups and advise Senator Harrison of the result.

April 2, 1937

HM, Jr's telephone conversation with Senator Harrison in which the latter reported he had not been successful in selling the Treasury's plan to the railroad groups.

April 2, 1937

Board of Actuaries' letter to Secretary giving analysis of the various actuarial computations and Board's opinion in respect to the assumptions upon which the calculations were based.

April 2, 1937

Doughton telephoned HM, Jr to inquire present status of railroad retirement matter. HM, Jr told him Harrison had heard from Pelley that railroads would not go along and Vice President and he had discussed it at Cabinet and President asked that Harrison not introduce any bill and that he, the President, would send him a letter telling him why.

April 2, 1937

HM, Jr's memo to Magill giving today's events in connection with the railroad retirement matter. He wrote Magill that he had told the President Magill would have a letter prepared by 12 o'clock Monday, April 5th, to go to Doughton and Harrison.

April 5, 1937

Conference in Secretary's office from 4:30 to 7 p.m. at which was used the memo from Magill (attached to minutes of meeting) giving history of the matter from beginning to date. Decided because of disagreement among various actuaries to have actuaries get together at one conference and try to ascertain the actuarial cost, etc., on this plan and report to the Secretary next week.

April 8, 1937

Meeting of actuaries for general discussion of points of issue.

April 12, 1937

Copy of letter from actuaries in which they state they unanimously agree that scale of tax rates is inadequate and advise against proceeding on the basis of the proposed agreement.

April 12, 1937

Buck's telegram that he concurs in letter signed by actuaries and authorizes the affixation of his signature.

April 13, 1937

Meeting of all concerned to discuss report of actuaries. HM, Jr said he was willing to start on a flat 7% basis with the understanding that the matter will be reviewed at the end of three years.

April 13, 1937

Magill's memo that Treasury people are examining latest drafts of the tax bill for the railroad retirement matter.

Senator Harrison inquired if Treasury would agree to revision of the rate schedule to 5½% to begin with, increasing in the course of 12 years to a permanent rate of 5½%. Magill reported this to Congressman Doughton.

April 13, 1937

Copies of the legislation (two bills) for the railroad retirement matter.

April 13, 1937

HM, Jr's memo that he had reported to the President on the railroad retirement matter and had said he would take either plan suggested by the actuaries.

April 14, 1937

Magill's memo of Harrison's second call about altering the tax rates. Magill told the Senator that HM, Jr's position was matter was now out of the Treasury's hands and up to the Congressional leaders.

April 15, 1937

Magill's memo that Doughton had introduced the bill this afternoon with the  $5\frac{1}{2}\%$  - 7% rate schedule.

April 15, 1937

Copy of the bill introduced by Mr. Doughton.

April 21, 1937

Magill's memo that Ways and Means Committee today started hearings on the railroad retirement legislation. George Harrison testified and Kent goes up tomorrow to present actuaries' letter and statement of Treasury views.

# TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

DATE February 24, 1937

TO The Secretary  
FROM Miss Lonigan

I am attaching a full report of my interview yesterday with Mr. John Ihlder of the Alley Dwelling Authority, because of high quality of Mr. Ihlder's judgment and accomplishments in the housing field.

Mr. Ihlder has promised to think over the problem of using unskilled labor in some form of housing project for the District self-help cooperative. Similar experiments were carried out in Vienna. Mr. Ihlder agrees that it is not at all hopeless to invent new housing projects for the self-help cooperative in Washington in 1937, but they will have to be somewhat different from those found useful in Richmond in 1932.

Miss Katherine C. Bauer was in charge of advertising copy for Harcourt Brace and Company, publishers, until 1932 or 1933. When they reduced their advertising staff, Miss Bauer went to Europe for six months. She visited housing demonstrations in Germany, Austria, and England under the direction of Lewis Mumford. On her return, again under his guidance, she wrote a book on her travels.

Since then she has worked with the Labor Housing Conference of the A F of L, and has done consulting work for the National Resources Board, PWA, and Resettlement.

She is now working for the World's Fair in New York.

Miss Bauer has a vivid personality and a quick mind. Her approach to housing is that of a high-grade publicity worker, and assembler of prevailing ideas. She has energy rather than judgment.

\* \* \* \* \*

Mr. John Ihlder has the following experience in housing. His judgment is of extraordinarily high quality.

Field Secretary, Natl. Housing Assn. ....	1910-1916
Managing Director, Philadelphia Housing Assn. ....	1917-1920
Manager, City Development Dept., U. S. Chamber of Commerce .....	1920-1928
Executive Director, Pittsburgh Housing Assn. ....	1928-1933
Consultant, Natl. Capital Park and Planning Commission .....	1929
Executive Officer, Alley Dwelling Authority for the D. C. ....	1934
Section Chairman, President's Conference on Home Building .....	1931
Member, Philadelphia Zoning Commission .....	1917-1920
Advisory Committee on City Planning, Commerce Dept. ....	1921-1934
Board of Governors, American City Planning Institute	
Ex-President, Natl. Conference of Social Work	
Executive Committee, Intl. Housing Assn.	
Member Council, Intl. Federation for Housing and Town Planning	

Mr. John Ihlder of the Alley Dwelling Authority has done the finest piece of work in the housing field in the United States in the last four years.

He is limited by law to buying land in congested areas in the District and rebuilding only on those sites. He has had appropriations of about \$700,000.

In spite of these serious handicaps, Mr. Ihlder has solved the principal problem in low-rent housing - the development of design so good that houses can be built at low cost without subsidy. All Mr. Ihlder's remodelling has been kept within cost limits which can be repaid out of rents from low-income tenants.

He has built some new houses and remodelled some dwellings, putting in running water, stoves and ice boxes in what were formerly the worst slums. He has clearly in mind the need for better housing, rather than good housing.

The housing experiments of the last four years have fallen down from two principal weaknesses - a desire to give low-income families ideal housing at once; and insufficient skill in design and cost control to build cheaply.

Mr. Ihlder knows that it will never be possible to rehouse the masses of ill-housed Americans unless construction costs can be kept very low. He also knows that the small-unit house is frequently lower-cost housing than large-scale units, because of less overhead.

Mr. Ihlder sees clearly the distinction between short-term and long-term housing plans. He hoped to describe to the President a program for five-year or ten-year houses, of cheap construction which

- 2 -

would be immediately effective in meeting the housing shortage. Ownership of these houses would be retained by the Government which would be under obligation to tear them down in ten years, to prevent development of new slums and new vested interests.

In the meantime, the more slow moving program of substantial construction for the long-term could get under way without sacrificing emergency needs. At the same time, tenants who had been living in slums would be slowly adjusted to better living conditions, and be mentally ready to take care of high-grade housing.

Mr. Ihlder's funds for construction are used as capital for a revolving fund, with one exception. If the Alley Dwelling Authority has to buy land which has a high cost because it is overcrowded with buildings, and they decide that the land should be rebuilt with few buildings, they write off the decline in land values at once, and know exactly what their losses are. This is in line with the best practices of urban land use - to decide on the best social uses of the land, to fit the capitalization to real income, and to admit the loss of speculative profits at the beginning.

Mr. Ihlder favors no other subsidy for housing but this. His low-rent buildings repay full construction costs and normal capitalized value of the land.

Mr. Ihlder's present difficulty is that under the law he can operate only in congested alleys. Frequently it is not the best use of such land to build low-rent housing on it. It may be best fitted for a farmer's market, or it may be a natural high-rent area.

- 3 -

Mr. Ihlder, therefore, can rebuild fewer units than he tears down. He has immediate need for authority in the act to build new housing equivalent to the amount he tears down, even if he has to acquire new sites.

Obviously he should also be permitted to go into new construction on low-cost land, instead of being limited to alley clearance. When rents go up as a result of a housing shortage they never come down, even after the extra housing is built.

Mr. Ihlder is fully able to apply the methods he has worked out so carefully in Washington to a national program superior to those now under way.

# TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

MEMORANDUM OF THE DAY'S ACTIVITIES FOR FEBRUARY 24

DATE February 24, 1937

TO Secretary Morgenthau  
FROM Mr. McGill

### 1. Railroad Retirement Allowances

Mr. Latimer spent an hour with Mr. Oliphant and myself today. He did not make clear precisely what he wanted, probably because he was not too sure in his own mind that he could persuade us to agree with him. His proposals, however, seemed to be three:

(1) That enough revenue be diverted from the Social Security taxes to pay a part of the cost of railroad retirement allowances which the railroads and their employees are unwilling to pay themselves;

(2) That the administration of the railroad retirement taxes be transferred to the Railroad Retirement Board

(3) That the Carriers Taxing Act and the Railroad Retirement Act be consolidated into one law

He told us that the railroads and brotherhoods have virtually agreed upon the new provisions for retiring allowances and that the railroads, accordingly, will drop their fight on the constitutionality of the Carriers Taxing Act.

### 2. Interstate Commerce Commission -- Undistributed Profits Tax

Mr. Eastman is coming over on March 3d at 3:00 P.M. with Mr. Boles, to see Mr. Kent and myself.

### 3. Non-resident aliens

Mr. Burgess said he thought the proposed transfer tax on sales to or by non-resident aliens would cause a furor among the brokers. He is going to discuss the tax with some of his own men in New York who are familiar with the security markets.

Mr. Kent met with Mr. Malcolm Bryan of the staff of the Federal Reserve Board and Dr. Goldschmidt of the staff of the Securities & Exchange Commission this afternoon, to consider the kinks in the Transfer Tax.

Another matter we need to consider is the possible amendment of the tax on transfers between our own citizens, since the present scheme of taxation bears no relation whatever to the values of the securities bought and sold.

Report of day's activities to Secretary - 2/24/37 - 2

4. Translation of foreign tax laws

Mr. Haas has agreed to go forward with this project at once. We have just had an example of our need for such a compilation in the fact that it has taken us all day to find out the stock transfer taxes imposed by the principal foreign countries and we have not yet been able to ascertain the Dutch taxes. The legislative division would use a translation of the foreign tax laws virtually every day in the year and so would a number of other divisions in the Department.

Attachment -- Conference with Mr. Latimer

*RW*

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 24, 1937.

TO The Secretary  
FROM Mr. Magill

Mr. Latimer had a lengthy conference with Mr. Oliphant and myself this morning regarding the proposed changes in the Railroad Retirement Act, which are in process of negotiation between the railroads and the brotherhoods. Mr. Latimer said that an agreement had been reached on the principal points and would be put before the President on Friday. The details to be considered in the remainder of this memorandum are not to be laid before the President.

Latimer put up to us essentially three questions, although in his conference he covered practically the entire background of railroad retirement legislation. In the first place, he would like to know whether we are agreeable to a utilization of a part of the proceeds from the Social Security taxes to pay the cost of retirement allowances for railroad men. Railroad men, as a group, are older than other employees. Retiring allowances of the amounts which they desire will not be provided by taxes in the amounts which they are willing to pay (a total of 7% on the pay-rolls divided equally between the railroad and the employee).

Mr. Latimer thinks that it is fair to make other employees bear this excess cost although I was not satisfied with the reasons which he gave, and it would seem to me that we may be creating a very undesirable precedent for similar special treatment in other industries.

His second question is whether it would be legally safe to place the taxing provisions and the provision for retirement allowances in the same act. This kind of an act was held unconstitutional but Latimer thinks that conditions have changed due to the fact that railroad executives are now supporting the act, and testify that the efficiency of railroad operation will be improved by provisions for retirement allowances. In the third place, Mr. Latimer inquires whether it will be possible in some way to place the administration of the tax provision under the jurisdiction of the Railroad Retirement Board. He says there is considerable lost motion at present arising from the fact that the taxes are solicited by one agency and the payment of the allowances is under the jurisdiction of another agency.

I asked Mr. Latimer to give us, first, a categorical statement on the questions which he wished us to consider and, second, a memorandum of his views with respect to these questions. He told us that the railroads and the brotherhoods hope to have the precise legislation in shape by the first of April, and to obtain its passage in Congress shortly thereafter.

RM

February 24, 1937

Senator Nye called. Wanted to know what we were doing about alien-owned American stocks. That his Committee had given the matter up because it was too difficult to handle. I explained to him that we were studying the problem here and were hopeful of finding a solution. That in case of war abroad we were prepared to ask Congress for the necessary legislation to make it possible for us to become custodian of all foreign-held American securities. He said that he was delighted to know it. He said, strictly between us, he simply considered the State Department a branch office of the British Foreign Office.

He then said, "Did you read my speech on the Supreme Court?" I said, No; that I had heard about it. He said, "I just wanted to let you know that I have not closed the door to going along with the President," and then he went ahead and asked me two small political favors, which would be cheap.



OFFICE OF  
CHIEF COUNSEL  
BUREAU OF INTERNAL REVENUE

TREASURY DEPARTMENT

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WASHINGTON

February 24, 1937.

MEMORANDUM FOR THE SECRETARY:

In re: Status of Work of Board of Tax Appeals.

In accordance with memorandum of February 19, 1937,  
transmitted by Mrs. H. S. Klotz by memorandum of same date,  
statistics have been prepared showing:

- (1) The status of the work of the Board of  
Tax Appeals, and
- (2) The number of cases pending on its  
docket on a comparative basis.

These statistics are incorporated in the attached  
memorandum which is self-explanatory.

*Monson Shafroth*

Chief Counsel.

*Did you show this  
to the President*

*fs*

MEMORANDUM IN RE STATUS OF WORK OF  
BOARD OF TAX APPEALS

1. The total of the cases pending before the Board regardless of status, i.e. whether awaiting trial, awaiting decision, awaiting expiration of appeal period, or otherwise, on the dates indicated below, are as follows:

June 30, 1930	16,035
June 30, 1931	21,233
June 30, 1932	20,469
June 30, 1933	18,080
June 30, 1934	12,474
June 30, 1935	10,423
June 30, 1936	10,102
December 31, 1936	9,512

2.\* The total of the cases which had been heard by the Board, and submitted to it for its decision, but in which no final decision had been entered on the dates indicated below, are as follows:

June 30, 1930	1,223
June 30, 1931	963
June 30, 1932	1,103
June 30, 1933	1,763
June 30, 1934	1,894
June 30, 1935	1,477
June 30, 1936	907
December 31, 1936	781

3. The total of the cases which have been submitted to the Board and in which no opinions (as distinguished from decisions) have been promulgated as of February 23, 1937 is set out below. A division of such total into periods is also given as follows:

<u>Period in which submitted</u>	<u>Number of cases</u>
April 16, 1931 to Dec. 31, 1934	11
Jan. 1, 1935 to June 30, 1935	25
July 1, 1935 to Dec. 31, 1935	8
Jan. 1, 1936 to June 30, 1936	94
July 1, 1936 to Dec. 31, 1936	251
Jan. 1, 1937 to Feb. 23, 1937	<u>105</u>
Total	494

\*This table includes cases in which the Board's opinion had been rendered but which were, on the dates given, awaiting recomputation prior to entry of final decision, and also cases returned from appellate courts awaiting entry of decision by the Board.

February 19, 1937

MEMORANDUM FOR MR. SHAFROTH:

The Secretary asked me to send this to you with a request that you prepare the memorandum asked for by the President.

H.S.Klotz

COPY

THE WHITE HOUSE  
WASHINGTON

February 19, 1937.

MEMORANDUM FOR  
THE SECRETARY OF THE TREASURY

Would you ask Shafroth to let me have a confidential memorandum showing status of work of Board of Tax Appeals; also showing cases before them and cases on docket on a comparative basis for four or five years past?

F. D. R.

24 February, 1937

*[Handwritten initials]*

COAST GUARD OPERATIONS IN FLOOD AREA

With the improved situation throughout the Mississippi Valley, Coast Guard operations are now confined to the final stages of assistance work and in winding up affairs.

- - - - -

Captain Reinburg, Commander, Coast Guard Relief Force, at Memphis, is returning to his regular station at Chicago this afternoon, but will continue to exercise general jurisdiction over Coast Guard flood relief operations.

- - - - -

The remaining Coast Guard force, totaling 16 seagoing units and approximately 25 boats, is under the immediate direction of Lieutenant Eskridge, Commanding Officer of the DIONE, at Natchez, Mississippi. The need for the services of this force is nearing a close.

- - - - -

Unless otherwise instructed, no further daily reports will be submitted.

*OK*

- - - - -

General Water Level Conditions.

Water 58' at Natchez, with a falling tendency. New Orleans up 1/10th a foot this morning to 19', which level is not expected to be exceeded upon the arrival of crest tomorrow.

*lll*

February 24, 1937

Talking to the President over the phone today the Secretary said to him, "I saw you said something in your press conference about the Housing Bill and I wanted to tell you that I have been working on it from the financial side and I hope to have something to present to you. I forgot to mention it yesterday when I saw you, but it will take our people the balance of this week to complete the study. Before I announce our financing plans, I would like to see you tomorrow morning."

"On the foreign thing, the only thing that is new

*Sammyt Bay*

February 24, 1937

Excerpt from Minutes of Group Meeting in Secretary's Office, February 24, 1937, at 9:30 a.m.

H.M.Jr: I'll dictate this. Then the others can take this up, see? Mr. Hull called me last night and said that, after thinking this whole question over - after thinking this thing over very carefully....I mean I've got to repeat but what I am saying is ultra-confidential. He said that, after all, during the last three or four years, Agriculture has a number of times done things which were contrary to the State Department's policy, but the State Department has been able to live them down; and that if the Treasury wished to go ahead in this matter of trying to control foreign capital, their position would be the position as stated in Herbert Feis's letter. But he hoped I would be very slow about it and very careful, because he - if I didn't mind his giving me his personal opinion, this method that had been suggested of making it permissive and raising from ten to thirty - that he didn't think it would have the effect we wanted.

Therefore, his personal advice to me was that we go very slowly, but whatever we do, well, he'd go along in the sense as stated in Herbert Feis's letter. But his personal advice to me was to take it easy.

Thursday  
February 25, 1937  
8:50 a.m.

Treas.  
Operator: Go ahead.  
H. M.  
Cochran: Hello

HMJr: Hello, Cochran

C: Hello, Mr. Secretary

HMJr: Where are you?

C: I'm at the Embassy office now.

HMJr: Yes

C: But my friend sailed this afternoon; I was just down to see him off, at the station.

HMJr: Yes

C: The boat train left at four-fifteen.

HMJr: Well, Cochran, I want to tell you something and I'll try to do it in as guarded a way as possible.

C: Yes

HMJr: It seems to me at this end that there are certain things that the people over there could do, you know? - In your - the country where you are now.

C: At your end there is what?

HMJr: There are certain things that they might do to help themselves, see?

C: Yes

HMJr: And what I thought you might do is this, why don't you get me off a cable - ?

C: Get - get what?

HMJr: Send me a cable -

C: Yes

HMJr: Of what you think the French might do to help themselves internally.

C: Yes

HMJr: And your reasons for it, see?

C: Yes

HMJr: And then I can digest it and then I can give you an answer.

C: All right, fine.

HMJr: Now, I've got certain ideas myself.

C: Yes

HMJr: But, I'd like to get yours first.

C: I have been sort of planning to give you a summary of the situation the next three or four days.

HMJr: Well, I wish you'd send it not later than - they're so slow here; if you could get it off Friday night they might get it decoded and get it to me by Monday.

C: If I get it off tomorrow night?

HMJr: Friday night

C: Friday - ? but tomorrow's Friday.

HMJr: Yes

C: I can get it off tomorrow night.

HMJr: But,- in the thing -

C: - morning I am going to see Fournier -

HMJr: Yes

C: - the Under-Governor. And I'm also going to see Cariguel.

HMJr: But the thing that I'm asking you is, what - from sitting there - do you think that they might do to help themselves?

C: I understand and I have some ideas on that.

HMJr: See? - And if - -

C: I'll just sort of sound out to see what's going on.

HMJr: Yes - And if you want to you - in this cable you can say, in order - "Complying with your request I am giving you the following information," you see? If you want to say that in your cable.

C: - some way.

HMJr: Hello?

C: Yes

HMJr: I mean, if you want to, you could say in your cable that you're giving me this information at my request.

C: Just as you wish. I'd really planned and I told Wilson that I was going to send a summary -

HMJr: Yes

C: - the next day or two, trying to show what measures are opposed to them -

HMJr: Yes

C: - and what the situation exactly is.

HMJr: Yes - Well, I mean - now, on that - you notice I keep emphasizing - what the French can do to help themselves?

C: Yes, yes, I understand.

HMJr: Do you get what I mean?

C: Yes

HMJr: Do you? - Hello?

C: Yes

HMJr: And I'd like a cable along those lines, see?

C: I'll get that off tomorrow evening surely.

HMJr: Yes, because I've got certain ideas and - -

C: Well, I've heard nothing more from the Minister. On Monday night at this Washington's Birthday Dinner -

HMJr: Yes

C: - he said he was going to give me a telephone call during the week -

HMJr: Yes

C: But I haven't heard from him.

HMJr: All right.

C: And I'm going to see these other people tomorrow.

HMJr: All right.

C: And in the wire today which went out, I told you of my talk with the man up at Amsterdam -

HMJr: Yes

C: - when he confirmed today that they had turned my friends here down -

HMJr: Yes

C: - the request for five billion.

HMJr: Yes - Well, that - that isn't the kind of thing that I've got in mind, see?

C: No, no, but I mean, what I'm trying to show is that the possibilities over here of borrowing are blocked.

HMJr: Yes

C: And they've got to do something to

HMJr: Yes, well now, that's just what I've got in mind.

C: Yes - well, that I'll work toward tomorrow.

HMJr: All right.

C: One or two things involved in it I'd like to tell you.

HMJr: I have time.

C: Fine, because, on the night of the twenty-third or the morning of the twenty-fourth -

HMJr: Yes

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C: - an additional telegram went through here - I haven't a copy but I saw it.

HMJr: Yes

C: In which a conversation with the Federalist Government was reported -

HMJr: Yes

C: And he again brought up, or someone brought up - this question of getting a loan from us -

HMJr: Yes

C: - on our market.

HMJr: Yes

C: And the man here told him of his pact with Morgan -

HMJr: Yes

C: - in which their representative indicated that if the War Debt unit was settled a loan there might be possible.

HMJr: Yes

C: Now, the language that my friend here used was more optimistic, -

HMJr: Yes

C: - than Morgan's man used to Wilson and me on the same point.

HMJr: I see. You mean the interpretation of what Morgan said was more optimistic?

C: That's it.

HMJr: I get you. I mean -

C: Morgan's man told me, after this other thing - after their turn-down here had taken place - you see?

HMJr: Yes

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C: I kept out of touch with them while that was going on.

HMJr: I see.

C: But after the thing was over he told me the whole thing and told me - the wire which we are to send them.

HMJr: . I see.

C: And they're - they're not nearly as optimistic as our friend here, and his paper.

HMJr: Yes

C: See?

HMJr: I see.

C: I have a feeling that he'll take that proposition up when he gets there.

HMJr: I see.

C: His attitude toward me has been very nice -

HMJr: Good!

C: He said that he wants me to stay here, that I can be foot-loose and so on.

HMJr: Well - that - I'm glad to hear that.

C: Well - and I said, "Well, you write to Secretary Henry, when you're over there," - I mean you.

HMJr: Yes

C: He said, "Well, Henry already knows it from my first visit," I mean, from seeing you before he came. And I said, "Well, you've been here four months now, and if you can let him know that you're glad to have me go on with this I'm sure he'll feel much happier."

HMJr: Yes

-7-

C: And he said, "Well, I'll certainly tell him."  
The only thing where there has been any question  
at all was in regard to sending some of this  
highly confidential stuff the last ten days -

HMJr: Yes

C: - across the Channel.

HMJr: I don't get that.

C: I mean, you know I have an inspection -

HMJr: Yes

C: - of topics through my twelve colleagues -

HMJr: Yes

C: The man here does not think -

HMJr: Yes

C: - that these highly confidential things, such as  
I'll send tomorrow to you -

HMJr: Yes

C: - that those should go across the Channel.

HMJr: I see. Well, that's a matter of judgment.

C: - on that point, I think.

HMJr: Well, if they can't - if we can't trust our own  
representative in London, then we ought to change  
him.

C: Well, he thinks that you can't.

HMJr: He thinks we can not?

C: Yes

HMJr: What?

C: Yes, that's exactly what he thinks.

HMJr: He thinks we can not?

-8-

C: Yes, sir

HMJr: Well, that's a matter for Mr. Hull.

C: Well, I mean, I can't express any opinion on that. He picked me up on it and I said, "Well, please take it up when you go back," -

HMJr: That's right.

C: And, I said, "We'll be careful what we say in the meantime."

HMJr: Well, I'm glad that the relationship between you and him has been good.

C: It's been very nice and I think he's really sincere in wanting me to do this.

HMJr: Good -

C: And that was the only point - and the one about this telegram

HMJr: Well, I'll make some - I won't do it myself but I'll make some indirect inquiries and see whether we can get hold of it.

C: Yes, yes

HMJr: Anything else?

C: No, no, that's everything. And I'll get busy and get you this wire tomorrow evening.

HMJr: All right, thank you.

C: All right, sir.

HMJr: Thank you.

C: Goodbye.

February 25, 1937

Called the President and told him that he had to do something to get France to devalue. He liked the idea and I am going to see him at 10:10 tomorrow.

Called Haas and told him to have White work right through the night and be ready at 9:15.

I asked Knoke to take the midnight and be in my office at 9:15 in the morning.

I also arranged to speak to Cochran at 7:30 tomorrow morning over diplomatic channel.

February 25th

I have about come to the conclusion that we should take the initiative and recommend to the French government that they go ahead and devalue further. My purpose in calling up Cochran was to get his angle on this matter and I am going to ask Haas and White to give me a study on Monday as to whether the United States could stand a further devaluation of the French franc at this time. As I understand it under the tri-partite agreement they could devalue another 8% which would put the Franc down to 4.35 and that we would then take it up with the English that they and ourselves would permit the French to do this without lowering the pound or the dollar.

If we do not do something like this it is a matter of weeks that they will do something much more serious and the Blum government just cannot continue.

The fact that the people are figuring that the French are going to devalue further is rushing the money out of France so that they can get the profit out of it and if the French would devalue it would possibly slow up the rush of French money here.

FEDERAL RESERVE BANK  
OF NEW YORK*Mr. Lohman 20*  
208

## OFFICE CORRESPONDENCE

DATE February 25, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnakeBANK OF FRANCE.

I called Mr. Cariguel at 10:08 today, having been unable to speak to him when he tried to reach me yesterday. He explained that he had tried to find out who had sold the 15,000,000 francs which we had bought for the Bank of France on February 25. I told him that the Manhattan Company had been the seller and that I assumed that it was for Lazard's account with whom they work jointly. Cariguel replied that that checked with his information. He continued that they had had a very quiet day, <sup>yesterday</sup> and that so far, at least, today also had been quiet, they having been called upon up to this moment to support the franc only to the extent of \$180,000. I asked whether that signified an improvement and Cariguel replied that there was no reversal of the tendency.

I referred to the rumor that the French Government had concluded a loan in Holland, which rumor, I said, had reached here from London. Cariguel said that it was not his understanding. Although officially he knew absolutely nothing about it, he rather gathered from the market that an effort had been made to raise the money but that the Dutch were adamant and unwilling.

*Knake*  
LWK:KNC

RECEIVED

FEB 25 1937

FEDERAL RESERVE BANK  
OF NEW YORK  
RECEIVED  
FEB 25 1937

FEDERAL RESERVE BANK  
OF NEW YORK

*Mr. Lockhead* 209

OFFICE CORRESPONDENCE

DATE February 28, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

BANK OF ENGLAND

I called Mr. Bolton at 11:45 today and reverted to our telephone conversation of the twenty-third in connection with the cable regarding "24 hours notice" which we sent them on the eleventh. I reminded him that in this conversation he had briefly put the case as follows: "All dealings in gold cease immediately upon receipt of notification." I confirmed that this was the correct interpretation but stated that he should add "without prejudice to past transactions." Bolton replied that that was his understanding and that after all, it was a matter of complete confidence as far as they were concerned.

I also referred to his suggestion of the twenty-third that we insert the words "by either party" before "under the monetary arrangement." I mentioned that the lawyers agreed with him entirely and that according to them there was no question as to the earmark or release applying to both. Nevertheless, I suggested that we leave the text as is, as otherwise we would have to go back at all the others. Would that be all right with him? Bolton agreed.

I inquired about market conditions in Europe and Bolton said that after the slump in the London stock exchange last Monday, the London and continental markets had had rather a bad shake-up with the result that, for the time being, everything was stopped. Under the circumstances it was very difficult to tell which way the trend was. In France, things were a little quieter although there was no sign of real improvement.

Speaking about the continued flow of gold towards this country, I asked whether he knew anything about the shipment of \$5,500,000

FEDERAL RESERVE BANK  
OF NEW YORK

## OFFICE CORRESPONDENCE

DATE February 25, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND

- 2 -

of gold on the way from Egypt. Bolton replied that as far as he knew, this was gold which in the ordinary way would be sent to London for sale there but was now being sent to us by parcel post. It represented, he said, the accumulation of all the odds and ends of gold coin and jewelry paid in to the National Bank. It had nothing to do with production.

  
LWK:KMCRECEIVED  
FEB 28 1937  
TREASURY DEPARTMENT  
DIRECTOR OF THE BUREAU  
OF THE FEDERAL RESERVE SYSTEM



DEPARTMENT OF STATE  
WASHINGTON

February 25, 1937.

STRICTLY CONFIDENTIAL.

My dear Mr. Secretary:

I am forwarding herewith paraphrases of cables recently received from Ambassador Bullitt in London reporting conversations with the Minister of Foreign Affairs:

"I said that despite what appeared to be new moderation in Hitler's policies, I had some fear lest this might prove to be the lull before the storm. I ventured to express the possibility that Hitler was speculating on a possible collapse of the French financial situation and the overthrow of the Blum Government. This, in the opinion of the Germans, would result in the Socialists, the Communists, and the Left Wing Radical Socialists going into united opposition which would produce an enormous series of strikes of the greatest nature. That all this, indeed, was a possibility Delbos admitted, but he stated that he did not himself believe that the financial situation would get so far out of hand as to lead to the overthrow of the Government. He added candidly that he knew that both Labeyrie, Governor of the Bank of France, and Auriol, Minister of Finance, did not possess the country's confidence. There might be some slight return of this confidence if Labeyrie was replaced, which was a possibility. I questioned him as to whether there was any chance that Auriol might be replaced and if there might be other Cabinet modifications. He replied that he did not believe there would be. Mr. Blum would face

extreme

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

extreme difficulties in making any. He himself, he added, had suggested to Blum a few days ago a possible solution and he, Delbos, expected to attempt to carry this plan through at the earliest possibility. Delbos's proposal was the formation of a National Economic Council which would have the duty of supervising and coordinating the work of the Ministers of Finance, National Economy, Commerce, Agriculture, and possess as well some supervision over the Bank of France. Delbos was of the opinion that if Blum would appoint Rist to this position an immense return of confidence would occur."

- - -

"I asked the Prime Minister, Blum, whether he did not feel that the present moment might be a promising one for France and Germany to get together on the basis of a removal of barriers to international trade and armament restriction. He replied that he did not believe that the propitious moment had yet arrived. He stated his belief that Hitler was speculating on the fall of the Blum Government with the idea that if he should fall from power, the Socialists, the Communists, and the Left Wing Radical Socialists would make a united opposition which would make impossible any Government in France, and would bring about a series of strikes and possibly even a general strike. I queried him as to whether the Germans might not be close to the truth in their anticipations. His reply was that they were not close to the truth. First he expressed the belief that the financial situation would not bring about the overthrow of his Government. He called attention to the beginnings of the increase in confidence. I quoted to him the remarks of two prominent persons who had told me during the course of the previous two days that it was their opinion that a considerable return of confidence would occur if the Government got rid of Labeyrie, the Governor of the Bank of France, who did not seem to inspire confidence in anyone and if the Government at the same time put out a reassuring statement making clear that it was not contemplating the confiscation of private property. The Prime Minister responded that he knew there

WBB

- 3 -

was a campaign on against Labeyrie and admitted he thought Labeyrie is not a practical banker.

"I asked him in what further forms the German diagnosis might be incorrect. I stated that if the Blum Government is overthrown on monetary questions, did he believe they would be able to have another general election. Mr. Blum replied he was not at all sure of this. Before there could be another general election it would be necessary to have the consent of the Senate and it was doubtful whether the Senate would give this consent because it would know that the result of another general election would be to strengthen the Left - the Socialists gaining considerably at the expense of the Communists and the Radical Socialists, while the Radical Socialists would retain their present number of places by taking away a number of seats from the Senate, while the Right would gain nothing. He concluded that under the circumstances he would return with increased power.

"The Prime Minister then made what appeared to me to be the most important statement. He said that the third respect in which the German diagnosis was not correct was as follows: That if he went into opposition a Radical Socialist Government would then be formed with the support of the Senate and that he, Blum, would make the utmost effort to prevent serious strikes instead of trying to bring such strikes about. He stated that he would do his utmost to make possible in France an orderly government, because he considered that the international situation was too grave and the possibilities of action by Hitler too great for him to envisage for an instant any action that might lessen French strength in the field of international affairs.

"I asked Mr. Blum if he was satisfied with the attitude that the United States had manifested. Mr. Blum requested me to thank the President most profoundly for the general support which his whole line of political activity was giving to the French forces of democracy.

"Then he asked whether it might not be possible for France to secure in the United States some

type

- 4 -

type of loan. I replied that it was my opinion and the opinion of the American Government that the Johnson Act excluded absolutely any type of loan. In further reply to his question as to what the situation would be if a debt settlement was reached, ending the application of the Johnson Act, I stated that I could not give him an expert opinion on this subject, but I related an opinion of one of the partners of Morgan and Company to the effect that in case France met its debt to the United States, a French loan in the United States would present quite a different aspect. Mr. Blum said that he did not consider impossible a debt settlement. Bonnet, it is true, had been given no instructions to try to make a debt settlement, but only to try to develop further the existing trade agreement and the general collaboration between the United States, France, and Great Britain. He believed, nevertheless, that it ought to be possible in the near future to make a debt settlement. I pointed out that he must realize the position of the American Congress was extremely stiff and that I did not believe he could persuade the French Senate and Chamber of Deputies to accept any settlement which would also be regarded as acceptable by the American Congress. He replied that on the contrary he is confident the French Parliament is beginning to realize that the existing danger of European war was making it absolutely essential to have the good will of the United States by doing everything possible. Further, he stated, it is his belief that he could pass through the French Chamber of Deputies and Senate a debt settlement proposal which by extending the payments over a very great number of years would be satisfactory to the American Congress. He stated further that he could not make a settlement which would on its face be illusory, which everyone would know is in excess of the ability of France to acquire foreign exchange, but he believed he could get the Senate and the Chamber of Deputies to put through a debt settlement of a serious character.

"Further I asked him if he had anything else to suggest in the present situation. To this he responded that the Germans should come to realize that their speculations on disorder in France were

destined

destined to be disappointed. He believed that the moment would come when it would be possible to make some move towards the limitation of armaments with the hope of success. He hoped that the President and the American Government would give support at that time."

Sincerely yours,

*Rowell Mow*

Thursday  
February 25, 1937  
12:30 p. m.

HMJr: Hello  
Treas.  
Operator: Dr. Burgess

HMJr: Hello  
W. R.  
Burgess: Hello, Sir

HMJr: How are you?

B: I'm fine.

HMJr: Say, Burgess, do you suppose I could pick up a couple of million of two and a halves around last night's closing?

B: Of the new two and half?

HMJr: Yes

B: You want to buy on this market while you're working on a new issue?

HMJr: Well, I thought if I could buy them around-last night they closed around a hundred and one and ten thirty-seconds.

B: Well, they're quoted a hundred and one and fourteen sixteen<sup>ths</sup> right now.

HMJr: Oh! oh! they've gone up today?

B: Yes

HMJr: Ha, ha, ha!

B: (Laughs)

HMJr: Well, I see. Well then, I can't buy at last night's - -

B: I'm afraid you can't.

HMJr: Well, there, you see -

B: And you really wanted to, didn't you?

HMJr: No, I was just kidding you.

B: (Laughs)

HMJr: You rose for a fly.

B: (Laughs) I rose very nicely.

HMJr: Yes, yes

B: (Laughs) Well, I guess they liked the idea. You've given - you've made your statement, haven't you, to the press?

HMJr: Sure, don't you have a Dow-Jones news ticker?

B: Well, I've been so damn busy I haven't looked at it.

HMJr: Well, have somebody bring you in a Dow-Jones news ticker - about ten forty-five.

B: Yes, yes

HMJr: Sure -

B: Well, that looks pretty good, doesn't it?

HMJr: They went up-immediately after they went up.

B: Yes, yes - yes

HMJr: Yes, Well, it looks as though they like it.

B: Well, that's very nice.

HMJr: And incidentally - I love to rub this into you, see? - figuring that we say we give them at a hundred and one, see?

B: Yes

HMJr: - and a three per cent as against - they're giving them three per cent interest for the full - you know?

B: Yes

HMJr: - for the last month.

B: Yes

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HMJr: As against doing it - doing it for two and a half, you see, from the fifteenth of March on?

B: Yes

HMJr: - at a hundred and three-quarters. It works out exactly 'even Stephen'.

B: Is that so?

HMJr: Yes, I thought that was very amusing.

B: (Laughs) Yes

HMJr: See?

B: Yes

HMJr: I mean, it works out exactly the same from the standpoint of the Treasury and of course from the standpoint of the public we're selling - offering the bond at a hundred and one.

B: Yes, yes

HMJr: Isn't that interesting?

B: Well, I thought sure - the way this market looked - I thought it would go up when you announced it.

HMJr: Yes

B: I thought sure you could sell them at a hundred and one without any interest.

HMJr: I know, but I just thought that for an amateur sitting down here, you know, it's -

B: It's damn good, yes.

HMJr: - That's what I thought.

B: (Laughs)

HMJr: All right, thank you.

B: Righto

HMJr: Goodbye

B: Goodbye

Thursday  
February 25, 1937  
2:54 p. m.

HMJr: Hello -  
Treas.  
Operator: He's ready now.

HMJr: Go ahead.

T.O.: Go ahead.

HMJr: Hello  
Gordon  
Rentschler: Hello, there, Mr. Secretary man, how are you?

HMJr: I'm all right. Where are you, at the - ?

R: I'm down here on one of your islands loafing and I thought I'd better check up and see whether I was loafing too long or not?

HMJr: Are you down there at Jeckel Island?

R: Down at Jeckel, yes.

HMJr: I see.

R: It's perfectly lovely down here today, too.

HMJr: Well, it's very nice up here in Washington.

R: We've had some pretty bad storms but now it's bright and sunshiny so everything is going pretty good.

HMJr: Well, how's your golf?

R: Oh, it was not so good this morning.

HMJr: I see.

R: Still can't - still have a hard time doing better than a ninty-two.

HMJr: Well, well, well - well, that's -

R: It cost me a dollar this morning and I don't like it. I'll have to work like a dog tomorrow to get it back.

HMJr: I see. Well I'm sorry. (Laughs)

R: Tell me, on your financing on the fifteenth, is everything all set?

HMJr: Well, we made an announcement this morning.

R: Yes

HMJr: Did the boys tell you?

R: No, I haven't talked with them. I thought I'd check with you first.

HMJr: Well, we announced that we'd do three things this morning: That we'd raise no new cash; -

R: Good

HMJr: That we'd sell from two to three hundred million dollars worth of bills the fifteenth of June; -

R: Yes

HMJr: And that we'd offer an exchange - a new security for the April fifteenth on March fifteenth.

R: Good

HMJr: We told them everything except what that security would be.

R: I see.

HMJr: See?

R: Well, that puts you in very good shape.

HMJr: And on the strength of that the bond market went up - oh - a couple of thirty-seconds.

R: Yes, I see. Well, that puts it in a comfortable position.

HMJr: Yes

R: I'm glad you did it that way, because there's a little hesitancy on what the net rate should be.

HMJr: Well, I -

R: And it's pretty evident now what you can do and it'll work out pretty well.

HMJr: I have never fussed so over a financing as I have over this.

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R: No, because there's too many outside things that have nothing to do with you.

HMJr: Exactly

R: And on your own things you can do one thing but on the general situation you've got another problem.

HMJr: Exactly

R: So this puts you safe so that you can do something with the last two and a half and not get in any trouble with it after you can trust it a year and - Something of that sort would be all right.

HMJr: Well, now, don't think too much on me.

R: No, no, that's all right.

HMJr: You do your - -

R: Whatever you do - -

HMJr: Listen -

R: - will move along.

HMJr: - you do your fishing down there.

R: That's all right.

HMJr: (Laughs)

R: No, that's all right. Whatever you do will be all right.

HMJr: Yes (Laughs)

R: Now, tell me, what else is new?

HMJr: Well, I haven't got much else that I can talk about.

R: Yes, I see.

HMJr: (Laughs) But -

R: Is the European situation behaving itself on exchanges?

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HMJr: It's orderly.

R: It's orderly?

HMJr: It's orderly, yes.

R: But it - still there's a severe operation there that'll have to come some time.

HMJr: That's right.

R: And you're - they're not - they're frank with you about that.

HMJr: They'll what?

R: They're frank with you about that.

HMJr: Well, I mean, how shall I put it? They can't hide anything from me.

R: Yes, well, it's very - it has to come some time.

HMJr: But, the thing is - it's still orderly.

R: Yes

HMJr: Yes

R: Well, I think the rest of this other is in pretty good shape, then. - That's all right.

HMJr: Yes

R: And there's nothing really, that you want done, that we can do in this present situation, is there?

HMJr: No, I would say that you could stay down there perfectly well and be back Monday a week.

R: I see. Well, that's all right. That's just exactly the way we've timed it, you see. Then we'll be perfectly good loafers.

HMJr: All right. Well, you can be down there until Monday a week and you'll be back -

R: And we'll be in New York the Sunday afternoon a head of time.

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HMJr: Well, you'll be there in plenty of time.

R: That's all right, that's fine.

HMJr: All right. (Laughs)

R: Goodbye - and it was nice to say 'hello' to you.

HMJr: Righto

R: Byebye

HMJr: Goodbye.

GERALD P. NYE, N. DAK., CHAIRMAN  
WALTER F. GEORGE, GA.  
BENNETT CHAMP CLARK, MO.  
HOMER T. BONE, WASH.  
JAMES F. POPE, IDAHO  
ARTHUR H. VANDERBILT, MICH.  
W. WARREN BARBOUR, N. J.

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## United States Senate

SPECIAL COMMITTEE  
INVESTIGATING THE MUNITIONS INDUSTRY

February 25, 1937

*All  
Record  
Bates  
+ file*

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

Dear Mr. Secretary:

Yesterday morning, I talked to you about Earle A. Bates, a constituent who is here at my home at the present time. You were so good as to indicate a wish to strive to make place for him and I am fulfilling my promise to you by submitting, herewith, a statement by him concerning his background and previous work with the Treasury at Bismarck.

After seeing you, I went in and had a word with Mr. O'Connor and incidently made mention of my interest in Mr. Bates. You might find him equally anxious to help build the way for Mr. Bates.

I have never given an individual an indorsement with larger pleasure than I have in indorsing Mr. Bates. If you were to see him and visit with him you could not be other than impressed with the man. His ability is certainly well recongnized and his personality is one which would please anyone.

It will please me mightily if you can indicate to me at my office at an early hour the prospect of opportunity for this young man. Needless to say, he is quite eager about it all and anxious to get going.

Sincerely yours,

*Gerald P. Nye*

Washington, D. C.

February 24, 1937

Earle A. Bates, a resident of North Dakota at 610 Ave. A., Bismarck

Born November 16, 1913 at Huron, South Dakota.

I was graduated from Huron High School in course which included typing, shorthand and bookkeeping in June 1931.

I entered Western Union Telegraph service at Huron as clerk-messenger in 1929. Then I became operator at Virginia, Minnesota and later Branch Manager at Bismarck, North Dakota. A reduction in personnel brought about my release November 15, 1934. On November 26, 1934 I started in the FERA Disbursing office at Bismarck. Disbursing Clerk F. A. Holmes placed me in several types of work including mailing, numbering, examining and proof reading before assigning me to position of Lot Clerk May 1, 1935. The office, including myself, was transferred to the U. S. Treasury department - State Disbursing Office July 1, 1935.

This position was held until February 17, 1937. It consisted of arranging and recording vouchers and payrolls to facilitate their passage through the office. I also assisted in the preparation of reports and in check statement reconciliation during which time I used adding machines and occasionally a calculator.

January 21, 1937 I was released from the Disbursing Office because of the loss of work volume, due to payments being transferred to other states. I received my discontinuance of service notice, without prejudice, from Washington soon thereafter.

*Earle A. Bates*

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1937

TO Mrs. Klotz  
FROM Mr. Oliphant

The Secretary asked me at the 9:30 Meeting yesterday to ascertain whether the President had authority to reduce by 50% the present import tax on copper. This information he said he wanted for the President at 9:00 o'clock this morning. I said I could have it by noon, but the Bureau's statistician could not give us the principal countries shipping copper to the United States until late in the day. I attach copy of the memorandum which was sent to the Secretary's house by special messenger as soon as I revised it last night, which was 7:50.



February 24, 1937

Secretary Horgenthau  
 Herman Oliphant

Present Tariff Status of Copper

Paragraph 1658 of the Tariff Act of 1930 (U.S.C., Title 19, sec 1501, par. 1658) provides for the free entry of

"Copper ore; regulus of, and black or coarse copper, and cement copper, old copper, fit only for remanufacture, copper scales, clippings from new copper, and copper in plates, bars, ingots, or pigs, not manufactured or specially provided for."

Section 601(e) (7) of the Revenue Act of 1932 (U.S.C., title 26, and of chapter 30) imposes an "import tax" (customs duty) of 4¢ per pound on the copper content of the materials just described, as well as on certain other copper products. This tax will expire on June 30, 1937, unless further extended by new legislation. This tax on the classes of copper enumerated above is yielding little if any net revenue because the sums collected have been, or will be, refunded by way of drawback.

A bill to extend the tax for two years has been introduced in Congress (S. 1105) by Senator Brown of Michigan and is in the Treasury Department for report. Representative O'Connell of Montana has introduced a bill (H.R. 4800) to increase the tax rate to 9 cents per pound.

The import tax is not subject to reduction under the flexible tariff, section 526 of the Tariff Act of 1930 (U.S.C. title 19, sec. 1336), in view of the express provision in section 601(b)(2) of the Revenue Act that such tax shall not be considered a duty for the purpose of section 526 of the Tariff Act. It is, however, subject to 50% reduction under the authority conferred upon the President by the Trade Agreements Act of June 12, 1934 (U.S.C., title 19, sec. 1351). The principal difficulty presented under this provision of law is the necessity of negotiating a trade agreement in connection with which the import tax might be removed and arranging with the foreign country concerned for an early date for application of the agreement.

Precedents for a reduction of the import tax in connection with a trade agreement are to be found in the Trade Agreement with Cuba (tax on mahogany boards reduced) and the Trade Agreement with Canada (tax on lumber reduced, subject to a tariff quota on Douglas fir and Western hemlock).

The principal suppliers of imported copper ores, and refined and unrefined copper are Canada, Chile, Mexico, and Peru. No trade agreement negotiations are pending with any of the three countries last named, and the time required to institute and consummate such negotiations would apparently preclude action to change the copper tax in connection with a trade agreement with one of these countries.

In connection with Canada, there remains for consideration the possibility of a new Presidential proclamation reducing the rate of tax on copper pursuant to a finding by the President that such action is "required or appropriate to carry out" the trade agreement already entered into with Canada.

Prepared by  
Mr. Johnson

(Signed) Herman Oliphant

typed by hbk  
2/24/37

# TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE February 24, 1937

TO Secretary Morgenthau  
FROM Herman Oliphant

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*Prepared by  
Mr. Johnson.*

*Samuel C. Clark*

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1937

TO The Secretary

FROM Miss Lonigan *EL*

I have seen Mr. Baker and Mr. Rall again. They have been conferring with Mr. Street and other District people in connection with organization of the District self-help cooperative.

I am making inquiries about the possibility of fishing and fish processing for the District cooperative. This suggestion was made by my secretary, Miss Epps.

I will carefully avoid any appearance of suggesting projects, but the weakness of the Washington experiment is going to lie in the greater ingenuity needed in developing industrial and housing projects than in Richmond in 1932. I think it is advisable for us to do considerable exploratory work to discover what new types of projects are feasible.

I have also made appointments with most of the welfare officials of the District to get further background material about unemployed families.

OFFICE OF  
THE SECRETARY OF THE TREASURY

February 25, 1937.

MEMORANDUM FOR THE SECRETARY:

Herewith I hand you a copy of Ambassador Bullitt's latest telegram on the St. Pierre decree, phoned to me from the State Department this morning, together with a copy of a draft of a suggested reply which I have furnished the State Department.

The expression of your appreciation, to be added only if Mr. Bullitt is still at Paris, has Mr. Gaston's approval.

GRAVES.

A handwritten signature consisting of a series of vertical, slightly wavy lines, resembling a stylized 'G' or 'GRAVES'.

Draft of reply to Ambassador Bullitt.

February 25, 1937.

Treasury Department advise they consider present proposal satisfactory. Stop. They believe that any modification of present decree, even though surrounded with apparently satisfactory safeguards, would be interpreted by smugglers as a change in the restrictive policy which has been in force since the promulgation of the present decree on April 9, 1935, and might lead to increased illegal activity. Stop. They say further that the bonding system now in force at St. Pierre is likewise in force in Mexico and in Newfoundland, Canada, and other British colonies in the Western Hemisphere, and that, therefore, the present decree leaves St. Pierre in precisely the same position as virtually all other potential smuggling bases. Stop. They call attention, however, to the fact that there has been a gradual escape of alcohol from St. Pierre in violation of the present decree, and express the hope that the importation of alcohol into St. Pierre will be carefully supervised so as to prevent any building up of present stocks, in accordance with the assurances mentioned in your telegram.

HNG/mff

To be added to telegram to Ambassador Bullitt if he is still at Paris.

Secretary Morgenthau asked me specially to express his very great appreciation of your fine cooperation and helpfulness in this matter.

HNG/mff .