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GROUP MEETING

March 1, 1937
9:30 A.M.

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

H.M.Jr: Speaking for myself, I had a swell time.

Gaston: Fine.

Roche: Good.

Gaston: I wanted to report for Mr. Upham. He called me up yesterday afternoon. His mother is quite ill and he's gone to Iowa.

H.M.Jr: Oh, I'm sorry. Mac?

McR: I think we'll be ready any time today on that.

H.M.Jr: Well, I'll let you know a little later.

McR: All right.

H.M.Jr: I read everything you gave me. If you don't mind my saying so, it wasn't very satisfactory. You (Oliphant) tell Clarence, will you, that I want to see him at eleven and actually go over this bill; will you? I mean I've got to understand it. And I'm not going to mention who did the analysis, but it wasn't done - Mac didn't do it - but it just wasn't satisfactory.

Oliphant: You want to see him at eleven?

H.M.Jr: Yes. You too, Mac, at eleven. I just want to sit down and read the bill paragraph by paragraph. Well, I'm not going to show this to Upham - I mean Oppen. What I'd like for him to have on it is lots of space so that it says what it does and I can write underneath it, as I go along, what I think it should do.

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Oliphant: Do you want him to have that summary before eleven?

H.M.Jr: Not - try to, but if he can't.... Do you want to phone him?

(Oliphant goes out to phone)

Well, you might as well have the other man here at eleven, Mac. I mean I didn't get what I wanted. I read everything.

McR: Barton?

H.M.Jr: Barton, yes. I mean you gave me the only thing I got anything out of. But when it gets to the technical things.... So you and Barton and Oppen at eleven.

McR: O.K.

H.M.Jr: Anything else, Mac?

McR: No.

H.M.Jr: Dan?

Bell: Some time ago I talked to you about winding up the Railroad Administration.

H.M.Jr: Uh-huh.

Bell: Well, it is practically completed. We had an Executive Order, which the President approved, transferring the files pertaining to personnel to the Civil Service Commission, the traffic and rates files to the Interstate Commerce Commission, and the Minnesota Fire Claims files to the General Accounting Office; and all the rest comes to the Treasury. We have taken over all the financial records and the assets, and it will be operated, I suppose, out of my office upstairs. The personnel...

H.M.Jr: Those six or seven fellows?

Bell: Yes. The three main men and one stenographer have gone to Internal Revenue.

H.M.Jr: Good.

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Bell: One stenographer to the Bureau of the Budget.

H.M.Jr: Yes

Bell: And one file clerk I'm keeping upstairs to run back and forth to Annex One. Mr. Oliphant's office thought it would be well not to have any other Executive Order at this time abolishing the office of Director General. We would carry right on and handle work right upstairs. Now, it might be necessary for you to designate someone as Assistant to the Director General in order to sign current mail, routine stuff.

H.M.Jr: Whom would you suggest?

Bell: Well, I think maybe Collins might be a good man.

H.M.Jr: Sold.

Bell: I'll submit to you the necessary papers. There will be a few checks to sign from time to time for claims, and as soon as we wind up the accounts of the Disbursing Officer...

H.M.Jr: Does it mean I still have my railway pass?

Bell: I think...

H.M.Jr: Just like for the last three years?

Bell: Yes, I assume you can. You're still Director General.

Roche: I thought you always flew.

Bell: You're still Director General.

H.M.Jr: Well Dan, it's two weeks since we gave any memorandum to the President.

Bell: Yes, I've worked on that.

H.M.Jr: You're not ready for it today?

Bell: No.

H.M.Jr: Did you see according to the newspapers that Wallace asked - how much, a hundred million dollars for crop insurance? Then I saw Ickes made a statement

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about ten million dollars administrative expenses wasn't enough.

Bell: Yes, he said that wasn't enough. Hasn't very much happened on the Hill other than what the President sent up.

H.M.Jr: But he doesn't - the fact that I see it may cost a hundred million dollars....

Bell: I assume he knew that when he sent the report.

H.M.Jr: Well, let's...

Bell: We'll put it in there.

H.M.Jr: What's happened since from two weeks ago today.

Then, you and Magill did a swell job and got nowhere. I mean I'd like to know what that was.

Magill: So would I.

H.M.Jr: I think the thing to do, if you men - I wish that you two men would prepare a memorandum and transmit it, where this railway thing stands and how much we're short-changed. If you'll write me a joint memorandum, I'll send it over.

Magill: Well, the Treasury is short-changed anyhow a hundred forty million.

H.M.Jr: How much?

Magill: One hundred forty million.

H.M.Jr: Well, whatever it is.

Magill: And we may very well be short-changed eight hundred forty. Isn't that right?

Bell: Right.

H.M.Jr: Well, will you men prepare a memorandum?

Magill: Sure, I'll be delighted.

H.M.Jr: What?

Magill: I'll be delighted.

H.M.Jr: No, seriously.

Bell: It's a little uncertain. Altmeyer said Friday that he would try to be sure if you could control Latimer.

H.M.Jr: Well...

Bell: What after happened...

H.M.Jr: The way the thing happened, I'd like to have prepared a memorandum for the President, and I think we oughtn't to wait more than 24 hours. Does that rush you too much?

Magill: Not at all.

H.M.Jr: No, let's get it today.

Bell: All right.

H.M.Jr: You prepare it; I'll send it over. It's things like that - I mean the fact that he sits there - he can't - it is impossible for him to analyze it. Just the same way I'd like to bring to his attention the maximum cost of crop insurance.

Bell: Well, as I understand, the statement that Latimer made was rather general, emphasizing that the union and the railroad heads and Latimer hadn't come to an agreement, but said nothing about our understanding with Mr. Latimer that he would submit a memorandum of the entire program to the Treasury before a final agreement was entered into.

H.M.Jr: Well, I'd just state it - I mean in kind of a gossipy way. You could make it two things. You could give me a technical document, and then draft a letter for the President, say, "This is what happened, as we understand it, last week, and this was the understanding we had with Mr. Latimer."

Magill: I don't think that Latimer can tell the President anything about the details, because the history of it is that Latimer talked to me and Oliphant for a very

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long time and we could get nothing out of him as to the details of the thing at all; it was a lot of smoke. And it was only after I got after him specifically the following day and said, "How about 140 million?" that we began to get down to brass tacks.

- H.M.Jr: Well, if I may suggest it - I mean after four years in Washington I'd suggest two kinds of memoranda: the technical situation, what it is; then a kind of letter for me to transmit, saying what happened in this office for the President's information. See? We've done that before. I mean when the President has it, he's always told us where we stand. What?
- Bell: That's right.
- H.M.Jr: He's either said he will or won't, see?
- Magill: (Nods yes)
- H.M.Jr: He might perfectly well say, "How did I know that meeting took place in Treasury? Why didn't you tell me that Latimer was over there and said so and so, that you were having trouble with Latimer?"
- Magill: Well, we didn't have any trouble with him. We understood Latimer was to give us a document which would run to fifteen, twenty pages, I suppose, giving us the details, which have never been submitted to the Treasury at any time, and he expressed surprise that he should be asked to give us a memorandum showing the actuarial calculations for insurance on the plan.
- H.M.Jr: Well, is there any doubt in your mind as to the advantage of sending it over to the President?
- Magill: No, not the slightest. I think that's what we should do by all means.
- H.M.Jr: Dan?
- Bell: No, but I assume certainly that the President did know that there was such an understanding, because on Thursday, when I heard this was going on, I called McIntyre and told him the matter had not been cleared

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with the Treasury, and he said, "Hold the phone." Apparently he went and talked with the President. At any rate, he came back and said that "the President doesn't want to see Latimer until it is cleared with the Treasury."

H.M.Jr: But he did see him.

Bell: But he did see him, yes.

H.M.Jr: That's why I want to send a memorandum. I don't know whether the President has done something. We'll simply put in the memorandum, "Here are the facts, Mr. President. There's 140 million dollars at stake. Mr. Latimer said he would clear it with us and we'd like to suggest that you inform Mr. Latimer that he does clear it with the Treasury, before he commits you, see?"

Bell: I think that's right.

H.M.Jr: Huh?

Magill: (Nods yes)

Oliphant: I got the very distinct impression that he was putting it up to us in the form...

H.M.Jr: Who's "he"?

Oliphant: Latimer.that they were trying to get the railroads and the unions to agree and we had to put up this money in order to get that agreement. That is about as bad a form as I think it could come to us.

Magill: He won't say that flat.

Oliphant: No, he won't say it flat.

H.M.Jr: Frankly, I'm not familiar - if the memorandum does nothing else, it will bring me up-to-date. If it does nothing else, it will bring me up-to-date. But certainly at the speed the President is moving, it is impossible for him to know about it all, and McIntyre doesn't know what it's all about. Huh?

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Magill: Well, no one would know what it was all about unless you began to delve into it. You'd never get it out of Latimer unless you knew what questions to ask, because Latimer isn't going to tell you.

H.M.Jr: Well, if you fellows would do that today and get that for me - a letter of transmittal telling the President what happened, what we'd like; then a technical memorandum explaining what the - how we see the difficulties there are. O.K., gentlemen?

Oliphant: I think it's going to be a hard thing to head off.

H.M.Jr: Hello (On phone) (Short conversation with Senator Wagner)

He's going to let me know this afternoon. He's got an appointment pending. Says he'll just tell the people he wants to come to my house.

Bell: (Hands Secretary a paper) Just wanted you to read that. Don't have to do it now.

H.M.Jr: Well, we've got to talk about that, huh?

Bell: Yes.

H.M.Jr: And while we're on that, if these Governors come down, I think you and I will have to do some homework for the President on that thing beforehand. I'd like to work - just you and Harry and I - I mean so we'll have some stuff for the President.

Bell: All right.

H.M.Jr: Huh?

Bell: You mean in cases where they're coming.

H.M.Jr: No, but he can't refuse to see them. Tell you what I'll do....

(On White House phone) Mr. Hopkins, please. Good morning. - - Yes. - - Thank you.

Any other thing, Dan?

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Bell: That's all.

H.M.Jr: Say, you haven't spent any money in two days.

Bell: Picking up a little now.

Roche: Trade's good.

Bell: Trade's good.

H.M.Jr: You're all right then?

Bell: I'm all right.

H.M.Jr: Archie?

Lochhead: Market's very quiet.

H.M.Jr: Miss Roche?

Roche: Nothing special, sir.

H.M.Jr: Wayne, a couple of weeks ago I asked you to do a job for me and I've had no report. It was in connection with the Export-Import Bank making a loan to Italy - cotton spinners, nine months' credit - and I asked you to find out how many other things like that were going on. Remember?

Taylor: I thought I did report back on that.

H.M.Jr: No, you simply said that you were doing it. I mean I never got anything. When could I have it?

Taylor: I can get that for you fairly quickly.

H.M.Jr: Can you do it before you leave?

Taylor: Uh-huh.

H.M.Jr: What?

Taylor: Uh-huh.

H.M.Jr: Because frankly I can't understand how the President can say that a loan to the French railways does not come within the spirit - I'm saying it very

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confidentially - of the Johnson Act, but at the same time we loan money to French spinners - I mean Italian spinners. I mean it seems the spirit of the Johnson Act is sort of flighty.

- Bell: Well, the Export-Import Bank is exempt from the Johnson Act, is it not. Isn't that right, Wayne?
- Taylor: (Nods yes)
- Bell: That's the difference.
- H.M.Jr: Well, what about the Chase and the National City?
- Bell: Well, they're under the Johnson Act.
- Oliphant: Export-Import is expressly exempt from the Johnson Act.
- Taylor: Or any other wholly-owned governmental corporation - controlled.
- H.M.Jr: Well, I - I know of that loan. I'd like to know any other loans they have made to countries who owe us money. And I don't know that Bill Myers or R.F.C. - that makes the whole thing, doesn't it?
- Taylor: They haven't done any new ones.
- H.M.Jr: Well, would you mind? Because I just - I think there's such a thing as consistency, huh?
- Taylor: It is rare.
- H.M.Jr: What?
- Taylor: There is such a thing, but it is very rare.
- H.M.Jr: Well, you were there at Cabinet when the President lectured to Cabinet on the spirit of the Johnson Act. You can use the phone if you haven't, just call up the R.F.C. and then - what is it, Import-Export or Export-Import?
- Taylor: Export-Import.
- H.M.Jr: Export-Import. Bill Myers, I'm sure, hasn't.

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Taylor: No, I know he hasn't.

H.M.Jr: Do you think before you leave you could?

Taylor: Uh-huh.

H.M.Jr: I've had that a couple weeks on my mind here. Have you got anything?

Taylor: Have official replies from the British and the Swiss.

H.M.Jr: British you have?

Taylor: Yes.

H.M.Jr: British, Swiss, French....

Taylor: French, Belgians, and Netherlands still to be heard from. But they've cabled.

H.M.Jr: Well, that's all right. That's on that earmarking amongst club members - exchange locker room. All right, what else?

Taylor: That's all.

H.M.Jr: George?

Haas: I have nothing except that I wish this group could have heard the Secretary of the Treasury in the capacity of a Harvard professor on Saturday, and also have witnessed Mr. Carruthers as he left the room. Should I tell a little bit about that?

H.M.Jr: Sure.

Haas: At the meeting there was a group of students from Yale, Harvard, and Princeton - select students, I take it - and members of the faculty from the three universities, including John Williams from Harvard and Harris from Harvard and a man named Gilbert from Harvard who was on the faculty there, and Rogers from Yale and Carruthers from Lehigh, and Riefler from Princeton. Kemmerer I don't believe was there. Leffingwell, of J. P. Morgan, was there. A man from the Bank of England was there, a man in charge of

the economic division of the Bank of England.

The Secretary opened the discussion - their student chairman presided - the Secretary opened the discussion by pointing out what the objectives of the Administration's monetary policy are and then went down and told each step, outlined each step and how it fitted into a whole. Discussion immediately broke on...

H.M.Jr: Excuse me. Hello (On phone) Hello, Harry (Hopkins). How are you? Harry, if the President is going to see these six Governors, I'm suggesting that you, Dan and I get together and do a little memorandum for him. - - No, no. - - Well, I know he hasn't, but I mean..... - - What? - - Well, I thought that - I mean I'm volunteering my services because - but I just want to say that Bell and I will be glad to volunteer because - for obvious reasons. I mean the thing is going and they've got to have a story. - - Well, we've been running those figures here, you see: the cost of states and... - - Yes. - - Well, I know it's going to be - it gets into a cat-and-dog fight, and I could sit back and do nothing, but Bell and I are willing to be helpful. - - Thank you.

All right, Georgie.

Haas: After the Secretary completed his summary, questions were asked. Oh, they ranged all the way from the 24-hour policy to the bond market to why the price is fixed at \$35, and why gold was embargoed. And it was a very lively discussion all the way through.

Mr. Carruthers insisted that we should have stayed on the gold standard. Then, in order to have an understanding of just what he was talking about, he was questioned what he meant by the gold standard. The boys took him on at one stage of the thing. And he says, "Well, you could be on gold standard and use these controls." Well, one of the boys from Princeton said that he'd been taught that the gold standard meant this, that, and so on, and by definition, if he had these controls he would no longer be on

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the gold standard. Well, he had Mr. Carruthers reeling, and when some of the professors saw him on the ground...

Gaston: ...they jumped on him.

Haas: The Secretary gave him the first push, then the boy got encouraged. And then, in order to catch himself, he came back and asked the Secretary a question; I forgot what it was. Oh, the 24 hours. And the Secretary demolished him on that. After the Secretary made a rather long statement, why, Mr. Leffingwell supported him completely - the Secretary's statements - from the business point of view, whether there would be confidence or there wouldn't be confidence.

Well, it went on for three hours in the morning - very lively discussion. Then somebody, a man named Harris, questioned the bond market, and the Secretary straightened him out on that.

Then the final - after the day was over - there was six hours of discussion. At the end each of the student chairmen of the five round tables gave a report in the auditorium of the conclusions reached. And the chairman of the Secretary's round table - either he got at the front sheet of the Secretary's paper or he read what the objectives were, and he said those were the conclusions of the conference.

H.M.Jr: He took the first page and a half...

Haas: That's right.

H.M.Jr: ...as the conclusions.

Haas: It was a marvelous performance the Secretary did up there. He's too modest to talk about it, but it really was a marvelous performance. I haven't seen anything like it. And there seemed to be a unanimous agreement after the discussion as to the Administration's program. The only one that didn't agree was Carruthers, and he was so groggy he just didn't know where he was located at the end. He was completely confused. It was brought out very definitely that he didn't understand his monetary theory.

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H.M.Jr: You must tell them, though, what happened one minute before the thing broke up.

Haas: In the afternoon?

H.M.Jr: Yes.

Haas: I wasn't there.

H.M.Jr: Well, one minute of five they got all these resolutions together. Carruthers piped up and said, "I can't go along with that. There's nothing in there about silver."

So I said, "Well, you don't expect to settle the silver question in one minute, do you?" He said, "No, but I got my opinion on silver." "Well," I said, "why weren't you fair in saying it before?"

Then this fellow Harris - none of us pulled our punches - said, "If you've got anything on silver, why didn't you say so this morning? The Secretary gave you every opportunity. Why bring it up at one minute of five?"

Haas: He was completely demolished.

H.M.Jr: One minute to five he says he wants to start talking about silver, so they - all day long we were looking for silver.

And the interesting thing that surprised me was that James Harvey Rogers - he gave us all his worries that he had a year and a half ago - all of them proved futile. "I can't see anything to worry about now other than the study of additional controls." He said, "Every worry I had a year and a half ago has disappeared." He said, "I was wrong." Now, that...

Oliphant: ...from Rogers is something.

Gaston: Was there any transcript of this?

H.M.Jr: Not a thing.

Gaston: That's too bad.

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- H.M.Jr: I gave to Leffingwell - he begged me to release the thing that the boys helped on. I'm going to let the President see it at noon. He said for three years he hoped and they tried themselves to do what I did that morning, but were unable to, and that it was the best presentation of the Government monetary policy anybody had given.
- No, I think it would have slowed everybody up if they had recorded it. I wouldn't have liked it.
- Gaston: But I tell you what you might do. Why can't Leffingwell write a magazine article from the background of this conference?
- H.M.Jr: I've got the statement. If the President will let it go out it can be given as a radio talk: "A View of Three Years' Monetary Policy; Where We Stand." Take about fifteen minutes. We could arrange it, huh?
- Gaston: (Nods yes)
- Haas: The Secretary, in outlining his steps - monetary steps that have been taken, indicated how they all synthesized together, and he said "with one exception" right at the start, so he gave everybody a lead to ask about silver or whatever they had on their mind.
- H.M.Jr: Whatever that one exception was. We decided we wouldn't name it. We gave everybody one exception.
- Magill: Nobody asked you what the one exception was?
- H.M.Jr: We said "with one exception."
- Magill: Didn't you run up a red flag?
- H.M.Jr: We had two pages on silver. We spent two nights at home on it. And after we had two pages on silver, we left the whole thing out and just said "with one exception."
- Roche: And nobody asked? As I was saying, there were no women present - curiosity.

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H.M.Jr: Well, thanks, George.

Magill: How do I get to see your statement?

H.M.Jr: Well, we'll take it over at noon. And I gather George held up his end.

Haas: Well, I'll take two minutes to tell about the other session on Revenues, Receipts, and Expenditures, Friday afternoon. They started the discussion by criticizing the income tax because it was variable and had a series of figures showing the yield. So the student chairman asked me if I would start the discussion and I did, and I found out very quickly that, other than Kent and I - we were on one side and the rest were on the other side. So it was just round-and-round, nobody giving us any help. But we were throwing spikes into their machinery.

For instance, I think Lutz prepared these tables on the incomes before we got to the undistributed profits tax. Well, they just pointed to the yield, and I pointed out that as a statistical situation it wasn't sound because there was such wide variation in the income tax rates during the period. I don't want to go into it.

And then the undistributed profits tax. By the way, George O'May was one of the guests too. But he didn't question the estimates.

Oliphant: Didn't mention his visit to Washington?

Haas: Huh?

Oliphant: Didn't mention his visit to Washington?

Haas: No, no.

Well, it was perfectly obvious that the instruction which had been given these boys, not only with regard to the undistributed profits tax but some of the other taxes, was of a low order as compared with the way the boys handled themselves in the monetary discussion. They were all smart boys, but they were just deficient in their understanding of it.

- 17 -

They wanted to arrive at a conclusion. So at the final session I was interested to know what the conclusion was. I thought - from the way the discussion went I didn't know how it was going to be. The chairman finally said this was the conclusion: that there was some question of the economic effects of forcing this distribution out. I pointed out it wouldn't necessarily have to force it if the corporation wanted to keep it. But he said that the distribution may have some adverse economic effects, and it was a general feeling that it shouldn't be a graduated tax, it should be a flat tax. Now, you can't reconcile those two statements. The economic effects would be more severe with a flat tax.

But any way, that was a conclusion. It was just too much to cover in that length of time. Then in the afternoon on Saturday the student chairman was rather hard put. He wanted to discuss revenue, receipts, and expenditures, and the budget, and whether it should be balanced, and so on. Well, finally I went in there, and they wanted to balance it at one figure, and the function I performed there was to raise questions about everything they attempted to do. So the time went on. So they got near the close of the session and the student was wondering, "What conclusion can we reach about this balancing?" The only thing they could get together on at the close of the session was that they felt it was highly desirable to retire the debt during periods of prosperity. He asked me if it was all right, and I said yes, I'd vote for that.

But we had a very good time.

H.M.Jr: The students, I thought, showed up better than the professors. I know I brought Bob over from Deerfield and he said, "Gee, dad, you come to Harvard to study economics under Harris and you take it for granted he's good. He just didn't know what he was talking about." I mean that was a prep school boy. This man kept saying all the time, "What's the Government going to do to keep the bond market from going down?" Said it about five times.

Haas: Every time he writes a book, it's about as big as "Gone with the Wind." About that size.

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Oliphant: And as much wind?

Haas: That's right.

Should I mention Berle's address?

H.M.Jr: Berle - Adolph Berle, Junior, is the most brilliant guy, and oh, what an orator that man is. He's like an actor. Here's a fellow that listens to these five chairmen and then he gets up and makes an address - the flow of the English language, the delivery. I mean it was like listening to a finished - well, I'd have to say English actor - on the American stage. I've never heard that man before.

Gaston: What was this on? On your conference on monetary policy?

H.M.Jr: He had the job, after five student chairmen got through, to summarize what they said. He was the last speaker of the day.

Gaston: On the general...

H.M.Jr: On the general role of governments and the national situation, I mean. But - well, you people (Oliphant and Magill) know him.

Oliphant: We listened to that for five years.

H.M.Jr: Am I overstating it?

Magill: You're stating it with complete accuracy as far as you've stated it.

Oliphant: You've stated your impression of hearing him the first time.

H.M.Jr: Well, I've never heard - I've never heard a man - of course, if you take down what he says, I guess you could break it down. But from a standpoint of delivery and the performance of mental gymnastics, I've never heard his equal. Now, I really haven't, from the standpoint of mental gymnastics. And never hesitates a minute. The words just came out like - as if he was reading from a document.

Oliphant: (Laugh heartily)
Magill:

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Mrs Klotz: They know him.

H.M.Jr: Do you know anybody who can do it like that?

Magill: No, I don't think I do.

H.M.Jr: He got a terrific hand of applause.

Haas: He mentioned something about the Constitution that might interest the legal people. In connection with discussing the role of the government in economic affairs, he mentioned that the Constitution - the question of the Constitution wasn't raised at this stage. He said we don't want an amendment to the Constitution, but what we want is to get back to the old Constitution that we thought we had. And he got a big hand. Then he said parenthetically that the way to do that, the simple, efficient way to do that, might be to get some judges that really interpreted it correctly, or something of that sort.

H.M.Jr: Well, he certainly bowled me over. Thanks, George, for your kind words.

Mr. Gaston?

Gaston: I haven't anything. I suppose there will be something published on this, won't there? These conclusions, etc.

H.M.Jr: I don't think - I'll talk to you after I see the President about it.

Roswell?

Magill: I have some memoranda from various sources on the subject of this flow of foreign gold - one from Burgess and one from Gourrich; and a letter from someone who says he represents the Amsterdam Stock Exchange, who would like to come in and see us.

H.M.Jr: Well, frankly, I'm going to put foreign capital on ice for 24 hours while I do housing. I mean I've got to prepare myself for that meeting tomorrow.

Magill: The trouble with our associates at S.E.C. - at least Gourrich is completely - apparently completely misunderstands the present proposals. What he has to

- 20 -

say is very interesting, but it isn't on the point.

H.M.Jr: Well, supposing you men carry it on. And Haas, those of you who have been in on it - I mean anybody who's been on it keep it moving. I wouldn't stop it. But as far as I'm concerned, for today and tomorrow I want to concentrate on this housing. I haven't got it yet.

Magill: I'm seeing Bryan of the Federal Reserve Board this noon. We'll keep it simmering.

H.M.Jr: Swell. Anything else?

Magill: Last night I sat next to a fair-minded, educated lady, and she talked about the income tax return, how complicated it is to make it out.

H.M.Jr: Have you talked to Gaston about your idea of having the slip sent out to people asking them to submit suggestions as to how they think the Government could make it simpler, something like that?

Magill: I spoke to him the other day.

H.M.Jr: I think it may be a good idea - I mean how we can simplify it.

Magill: I was working on my own return yesterday, and I don't need to tell you it is an impossible job.

H.M.Jr: You're telling me?

Magill: It's an impossible job even for somebody who understands all the ins-and-outs. But to comply with that return - you can't do it. Now, maybe that is the way it should be, but that's the way it is.

H.M.Jr: I wondered why you looked so fatigued this morning.

Magill: That's why it is.

Olyphant: One suggestion that I made is that it ought to be printed in English. That would be a big help.

Magill: That would be a big help.

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H.M.Jr: Let's think about this thing and...

Haas: Of course you'd want to have your suggestions a little further along before you...

H.M.Jr: Well, if Roswell Magill can't make out his own income tax....

Magill: Well, I can make one out and I have done so for some years, but it is not according to the instructions that they ask you to follow. And you practically - I think that it would be impossible to follow the instructions.

H.M.Jr: You don't mean to tell me you cut corners.

Magill: Dear, dear.

H.M.Jr: Huh? Well, Herman, I'll let you stay.

Lunch!

PRESIDENT ROOSEVELT CHOSE STUFFED CRABS FOR LUNCH TODAY FROM 20 MENUS SUBMITTED TO HIM BY MRS. ROOSEVELT IN THE COURSE OF THE "WHITE HOUSE LUNCH AND BREAKFAST REORGANIZATION," THE FIRST LADY REVEALED TODAY.

HIS REVOLT AGAINST LACK OF VARIETY IN HIS MEALS RESULTED NOT ONLY FROM AN EXCESS OF LIVER AND STRING BEANS, BUT ALSO FROM BEING SERVED THE SAME SALT FISH FOR SEVERAL DAYS IN SUCCESSION, MRS. ROOSEVELT SAID.

"ANY MAN WHO EATS ALMOST EXCLUSIVELY IN ONE PLACE IS LIKELY TO GET TIRED OF BOTH THE FOOD AND THE COOKING," MRS. ROOSEVELT SAID. "HE IS BETTER OFF HERE, BECAUSE THERE IS MORE THAN ONE COOK. IT'S LARGELY A QUESTION OF VARIETY."

3/1--CS1235P



OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

TREASURY DEPARTMENT
WASHINGTON

March 1, 1937.

MR. SECRETARY:

On February 6, 1937, I submitted a memorandum to Commissioner Helvering showing the names of four internal revenue agents in the Newark Division whom I could recommend for promotion to the position of Internal Revenue Agent in Charge. They were: Reuben O. Thornton; Raymond Shotwell; Joseph F. Kelly; and John J. Morgan. As directed by Commissioner Helvering, further detailed reports as to the service and ability of the four agents are submitted herewith.

In my opinion the reports show that Reuben O. Thornton is the outstanding agent in the Newark Division in experience, administrative and technical ability, and thoroughly capable of performing the duties of Agent in Charge. Commissioner Helvering is of the same opinion.

In this connection I believe you should be informed as to the following:

On February 18, 1937, Mr. Baradel informed this office that agents of the Newark Division were "about ready to start investigation of Mayor Frank Hague and his attorney, John Milton". However, there is no reason to believe that the investigation cannot be as thoroughly and as efficiently carried on under the supervision of Mr. Thornton, as under Mr. Baradel and it is not at all certain that the investigation will disclose additional tax liability.

Although it is not believed further investigation of Agent Thornton will disclose anything other than that shown by the attached report, Mr. Irey will be directed to submit a further report if you so desire.

Chas. T. Russell
Acting Commissioner.

February 19, 1937.

Mr. Commissioner:

In accordance with your instructions, I submit the following report on Internal Revenue Agent Reuben O. Thornton, Newark Division:

Before going into the history of Agent Thornton's service, I will briefly state his present status. Agent Thornton is 50 years old. His present grade and salary are CAF-12, \$4800 per annum and his present duties are those of group chief supervising work of 83 examining officers with posts of duty outside of Newark. His efficiency rating as of April 30, 1936 was 92, which is excellent. He was Second Assistant to the Agent in Charge of the Newark Division to February 1, 1936, at which time that position was eliminated in rearranging the personnel of the Division.

On August 14, 1935, the Internal Revenue Agent in Charge recommended Agent Thornton for promotion to Grade CAF-13, \$5600. The recommendation was disapproved at that time solely because it was inconsistent with the established policy that Second Assistants to the Agent in Charge be classified in Grade CAF-12 and the First Assistant in Grade CAF-13. However, he was granted an increase in salary within the grade to \$4800. The recommendation indicated he was considered equally capable as the First Assistant to the Agent in Charge.

Agent Thornton entered the Internal Revenue Service from the Civil Service Register on August 19, 1919 as a resident auditor. He had previously served in the U. S. Army from April 1918 to August 1919.

Prior to entering the army, his experience was as follows:

Clerk	- Auditor's Office Southern Railway, Columbia, S. C.	2 years
Bookkeeper and Cashier	Commercial Bank, Chester, South Carolina	6 years
Auditor	Bankers Trust Company, Atlanta, Georgia	1 year
Auditor	Farmers Exchange Bank Sylvania, Georgia	1 year

Mr. Commissioner,

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After entering the Revenue Service in August 1919, as a resident auditor, he was promoted in 1921 to Section Unit Auditor in charge of a group of 11 auditors. In 1922, he was again promoted to the position of Reviewer, and was subsequently made a special auditor in the Natural Resources Division. On August 4, 1924, he was transferred to the Special Adjustment Section. On June 13, 1925, he was transferred to the Atlanta, Georgia Division as an internal revenue agent, \$3,000 per annum. On December 31, 1926, his salary was increased to \$3100 per annum and on July 1, 1928, to \$3300 per annum. On November 16, 1928, he was transferred to the Newark Division as a Senior Reviewer and on February 19, 1929, he was advanced to CAF-11, \$3800 per annum. On April 1, 1931, he was again advanced in grade and salary to CAF-12, \$4600. In 1932, his position was advanced to that of "Chief Reviewer" and in 1934, he was designated as Second Assistant to the Agent in Charge, Newark Division.

The following are remarks as to his ability made by his various supervisory officers:

January 1, 1921

"Shows exceptional ability in handling Unit and training new auditors. Quantity and Quality of production excellent. Knowledge of law and procedure very good." Signed - F. R. Clute, Head of Division.

January 1, 1922

"A capable, conscientious Section Unit Auditor. Has ability to handle auditors with tact. Has an excellent knowledge of law and procedure. Is studious and interested in his work." Signed - John G. Remy, Chief of Section.

October 31, 1925

"This officer transferred from the Internal Revenue Bureau June 13, 1925 and has shown aptitude for field work - is improving with experience and will no doubt develop into a good examining officer." Signed J. A. Baugh, Assistant to the Agent in Charge.

April 30, 1926

"This officer possesses ability as an examining officer, is improving in his work and will no doubt develop into a splendid agent." Signed, J. A. Baugh, Agent in Charge

Mr. Commissioner

- 3 -

October 31, 1926

"This officer possesses ability to make complicated investigations and is improving as an investigative officer. He has produced a very good record during the period and has investigated difficult cases. His work has been very satisfactory." Signed J. A. Baugh, Internal Revenue Agent in Charge.

September 30, 1927

"This officer is a good accountant and willing worker with a good production record *** Has rendered a valuable service to the Division." J. A. Baugh - Revenue Agent in Charge.

September 30, 1928

"This officer is an excellent accountant and auditor; a conscientious worker and cooperates in every way. He is capable of handling the most difficult examinations. He has a pleasing and convincing personality and is a very valuable officer." Signed Wm. Brusse, Internal Revenue Agent in Charge.

October 23, 1928

"He has one of the best production records in the Division. His work is of the highest order. This officer has a splendid record and his work is uniformly of the best." signed - Wm. Brusse, Internal Revenue Agent in Charge.

September 30, 1929

"This agent is a splendid accountant and has a fine knowledge of law and procedure. He is capable of handling the most difficult cases and is a very valuable officer." Signed - Wm. Brusse, Internal Revenue Agent in Charge.

September 30, 1929

"This agent was transferred to this Division November 16, 1928, and for the entire time has been acting as "Senior Reviewer". He is of a very pleasing personality, well versed in accounting and income tax law and works well with others. He has devoted many hours of his own time to the work of the division during the past year mainly because of his interest in his work." Signed- J. P. Jenson, Internal Revenue Agent in Charge.

Mr. Commissioner,

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April 30, 1930

"The agent is acting as Senior Reviewer. He is thoroughly familiar with accounting and income tax law and has gained the confidence of the men with whom he comes in daily contact. He is one of the outstanding agents in the division. His work is on a par with that of Agents Morgan and Levy and far superior to that of the other agents classified in Grade CAF-12." Signed J. P. Jenson, Internal Revenue Agent in Charge.

April 30, 1932

"The agent is one of the outstanding agents in the division, and he is thoroughly reliable and well equipped for his duties as supervisor of the Review Section of the office and exercising general supervision of the assignments of the division." Signed, John J. Morgan, Acting Internal Revenue Agent in Charge.

April 30, 1933

"Mr. Thornton's services have been highly satisfactory. Through his pronounced technical ability and willingness to extend a helping hand he has been of inestimable service in training some of the weaker officers." Signed - R. T. Miles Internal Revenue Agent in Charge.

April 30, 1934

"During the year under review this officer was designated Second Assistant to the Agent in Charge. His services have been highly satisfactory and I express my indebtedness for the service which he has rendered to the Division and to me. He is very much underpaid." Signed R. T. Miles - Internal Revenue Agent in Charge.

April 30, 1935

"This agent is Second Assistant to the Agent in Charge and in addition to duties of such position, supervises assigning of income tax returns *** also supervises the work of these agents." Signed - J. R. Baradel, Internal Revenue Agent in Charge.

August 14, 1935

"I heartily agree with the comments made by Mr. Miles (April 30, 1934) and inasmuch as the industry and efficiency displayed by Mr. Thornton are of outstanding character, I think that the salary increase herein recommended (CAF-13, \$8600) is highly merited and should be granted." Signed - J. R. Baradel - Internal Revenue Agent in Charge.

Mr. Commissioner,

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April 30, 1936

"As "Group Chief" this agent supervises the income tax examining officers with posts of duty outside of Newark, New Jersey (including East Orange and Bloomfield), assigning the work and being responsible for the correct and expeditious handling of the cases assigned. Until February 1, 1936, Agent Thornton held the position of 2nd Assistant Agent in Charge; such position was vacated on that date. Mr. Thornton has supervision over the work of 83 examining officers." Signed - J. R. Baradel - Internal Revenue Agent in Charge.

In addition to the foregoing, I do not hesitate to state that in my opinion, Agent Thornton is the outstanding agent in the Newark Division.

The file does not disclose any political endorsements of Agent Thornton.

Chas. J. Russell
Deputy Commissioner.

February 19, 1937.

MR. COMMISSIONER:

In accordance with your instructions I submit the following report on Internal Revenue Agent Raymond Shotwell of the Newark Division.

Agent Shotwell is 48 years old. He is at present Chief Reviewer in the Newark Division, grade CAF 12, \$4600. His efficiency rating of April 30, 1936, was 94. He entered the service of the Bureau of Internal Revenue as clerk May 10, 1919, by transfer from the War Department where he had been employed since January 2, 1917, as a clerk. On February 1, 1921, his status was changed from clerk to that of Assistant Auditor \$2250 per annum. However, he had been performing the duties of Assistant Auditor and Section Unit Auditor since October 1920, through an error in his Civil Service status. On July 1, 1921, his salary was increased to \$2500 per annum. On May 9, 1922, he was designated junior unit auditor in the Consolidated Returns Subdivision. On March 1, 1923, his salary was increased to \$3000 per annum. On August 15, 1923, he was promoted to the position of senior unit auditor. On February 16, 1924, his salary was increased to \$3600 per annum and on June 16, 1925, he was promoted to junior reviewer. On October 24, 1925, he was transferred to the New York Division as a revenue agent engaged upon field investigations. On January 11, 1926, he was transferred to the Brooklyn Division. His salary was increased to \$3700 on July 1, 1926. On November 1, 1928, his duties were changed to field conferees and on March 1, 1929, he was promoted to reviewer, grade CAF 11 - \$3800. On October 16, 1929, his salary was again increased to \$4000 per annum. On July 3, 1930, in accordance with the amendatory Classification Act his salary was increased to \$4200 per annum. On November 1, 1930, he was transferred from the Brooklyn Division to the Newark Division and again assigned to field investigations. On January 1, 1932, he was promoted to the position of squad leader, supervising the work of 34 agents. Shortly thereafter his duties were changed to those of chief reviewer for the reason "his ability is more pronounced along technical lines than along administrative lines". On April 1, 1934, his grade and salary were advanced from CAF 11 - \$4200 to CAF 12 - \$4600, in accordance with the classification for the position of Chief Reviewer.

The following comments are by his supervisory officers:

- July 1, 1921. "Has developed well in the technical work."
(Signed) S. Alexander, Head of Division.
- January 1, 1923. "He is the most able auditor in the section and has good administrative ability".
(Signed) W. L. Heap, Chief of Section.
- January 1, 1924. "The ability of this senior unit auditor is greatly above the average of others performing similar duties in the division."
(Signed) W. L. Heap, Chief of Section.

- November 30, 1926. "While this agent's production record is below the average of other agents in the same classification grade, he is very thorough in his work".
(Signed) R. T. Miles, Supervising Internal Revenue Agent.
- September 30, 1927. "Above the average in both quality and quantity".
(Signed) C. M. Justice, Internal Revenue Agent in Charge.
- September 30, 1928. "Above the average in both quantity and quality".
(Signed) J. R. Baradel, Internal Revenue Agent in Charge.
- September 30, 1929. "Much above average in both quantity and quality. Employee is capable of handling any cases presented for review".
(Signed) J. R. Baradel, Internal Revenue Agent in Charge.
- February 16, 1929. "He is thoroughly familiar with his work but production to date appears considerably below average".
(Signed) J. P. Jenson, Internal Revenue Agent in Charge.
- April 30, 1931. "The production of the agent is well above the average within his classification grade. His judgment and knowledge of the work is also outstanding, and he has demonstrated the fact that he is one of the better agents attached to this division".
(Signed) J. P. Jenson, Internal Revenue Agent in Charge.
- April 30, 1932. "The agent is outstanding both as to quantity and quality of his work".
(Signed) John J. Morgan, Acting Internal Revenue Agent in Charge.
- April 30, 1933. "However, his ability is more pronounced along technical lines than along administrative lines and it is anticipated that he will during the ensuing year be transferred to the position of Chief Reviewer".
(Signed) R. T. Miles, Internal Revenue Agent in Charge.
- April 30, 1934. "Agent Shotwell's rating as a chief reviewer is considerably higher than it was during the period when

he acted as the squad leader. This is due to the fact that he is a much better technical agent than he is an administrative agent".

(Signed) R. T. Miles, Internal Revenue
Agent in Charge.

Chas. T. Russell

Deputy Commissioner.

February 25, 1937.

Mr. Commissioner:

In accordance with your instructions, I submit the following report on Internal Revenue Agent John J. Morgan, Newark Division:

Before going into the history of Agent Morgan's service, I will briefly state his present status. Agent Morgan will be 40 years old on June 23, 1937. His present grade and salary are CAF-13, \$5600 per annum. He acts as principal assistant to the Internal Revenue Agent in Charge of the Newark Division and in the absence of the Agent in Charge assumes the responsibilities and duties of that officer.

Agent Morgan entered the Internal Revenue Service as an Inspector on August 1, 1922 at \$1800 per annum in the Philadelphia Division, on September 11, 1922 was transferred to the Huntington Division, and on May 1, 1929 to the Newark Division.

Mr. Morgan is not a veteran.

Prior to entering the Internal Revenue Service, his experience was as follows:

Accountant -	Eddystone Rifle Plant, Eddystone, Pa.	4 years
	Compiled all fiscal statements, including P&L and Balance Sheets.	
Accountant -	Hale and Kilburn Corporation, Philadelphia, Pa.	1 year
	Preparation of all statements.	
Cost Clerk -	Edw. H. Vore, Philadelphia, Pa.	1 year
	Cost records on construction work.	
Accountant -	American Railway Express Co., Philadelphia, Pa.	4 years
	Working on statistics for dis- tribution of express receipts to railroads under I.C.C.	

- 2 -

Mr. Commissioner.

After entering the Revenue Service in August of 1922 as an Inspector, Mr. Morgan was assigned to the Philadelphia Division at \$1800 per annum. On September 11, 1922 he was transferred to the Huntington Division. Effective March 1, 1923 he was promoted to \$2000 per annum and on March 1, 1924 was designated as Internal Revenue Agent and promoted to \$2500 per annum. He was again promoted on July 1, 1924 to \$3000 per annum. On February 25, 1925 he was designated as conferee and on October 1, 1925 promoted to \$3300 per annum. On January 1, 1927 he was promoted to \$3500 per annum and again on October 1, 1927 was advanced in grade and salary to CAF-11 at \$3800 per annum. On July 1, 1928 he was given another advance in grade and salary - CAF-12, \$4600 per annum, and on April 1, 1931 promoted to Grade CAF-13 at \$5600 per annum.

The following are remarks as to his ability made by his various supervisory officers:

January 12, 1923

"This officer is a newly appointed inspector but is worth more money * * *". Signed - E. J. Rodgers, Internal Revenue Agent in Charge.

January 2, 1924

"This officer is very capable and efficient. He can investigate any class of case. This officer is very loyal to the Service and gives his best cooperation to this office". Signed - Harry V. Bitting, Internal Revenue Agent in Charge.

October 31, 1925

"He is a first-class accountant and income tax officer, possesses an agreeable personality and is highly efficient." Efficiency rating. 95. Signed - Harry V. Bitting, Internal Revenue Agent in Charge.

October 30, 1929

"This agent was transferred to this division effective May 1, 1929. He is at present acting as assistant to the Agent in Charge in addition to his duties as representative of the Special Advisory Committee." Signed - J. P. Jenson, Internal Revenue Agent in Charge.

- 3 -

Mr. Commissioner.

April 30, 1933

"I am glad of the opportunity afforded herein of expressing my appreciation of the very capable assistance and loyalty which he has extended to me during my incumbency of the position of Agent in Charge of the Newark Division." Signed - R. T. Miles, Internal Revenue Agent in Charge.

April 30, 1935

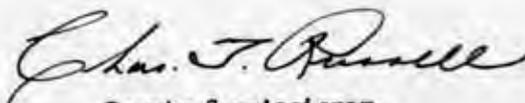
Internal Revenue Agent in Charge J. R. Baradel accords Mr. Morgan an efficiency rating of 93 as his principal assistant.

April 30, 1936

Mr. Baradel gives Mr. Morgan an efficiency rating of 96.

Mr. V. L. Highland, Republican National Committeeman for West Virginia, endorsed Mr. Morgan for Agent in Charge at Huntington on March 17, 1928, and in this connection Commissioner Blair stated "at the present time we are trying out the man who was Mr. Bitting's assistant and who has practically run the office for the last two years". (He is referring to the present Internal Revenue Agent in Charge Leslie R. Miles.)

Under date of April 18, 1923, Senator George Wharton Pepper wrote in behalf of Mr. Morgan.


Deputy Commissioner.

February 25, 1937

Mr. Commissioner:

In accordance with your instructions, I submit the following report on Internal Revenue Agent Joseph F. Kelly, Newark Division:

Before going into the history of Agent Kelly's service I will briefly indicate his present status. Agent Kelly is 45 years old and will reach his 46th birthday on March 31, 1937. His present grade and salary are CAF 12 at \$4800 per annum, and his present duties are those of the highest type of field examining agent. His efficiency rating as of April 30, 1936, was 90 which is "Excellent", and he has been assigned as an Acting Conferee during the past year. He apparently handles the most difficult and involved examinations in the Newark Division.

Agent Kelly is a veteran of the World War, having served in the Supply Corps from July 1918 to August 1919. He entered the Internal Revenue Service from the civil service register as an Internal Revenue Inspector effective August 1, 1920.

Prior to entering the navy, his experience was as follows:

Bookkeeper and Storekeeper	New England Telephone Company (1809 to 1912)	3 years
Deputy Collector and Inspector	Fall River Customs House (1912 to 1917)	5 years
Yeoman U.S.N.R. -	January 1917 to July 1918	1½ years
Ensign U.S.N.R. -	July 1918 to August 1919	1 year

After entering the Revenue Service in August, 1920, as an Internal Revenue Inspector and completing the 45-day training course, Mr. Kelly was assigned to the Buffalo Division at a salary of \$1800 per annum. Effective July 1, 1921, he

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Mr. Commissioner.

was promoted at \$2000 per annum; on May 16, 1922, he was promoted to the position of Internal Revenue Agent and assigned to act as squad leader, with compensation at \$2250; and March 1, 1923, he was promoted to \$2500. Under date of January 21, 1924, Agent Kelly tendered his resignation from the position of agent at \$2500 per annum in order to accept a position outside of the service, which was accepted effective at the close of business February 9, 1924.

Under date of June 17, 1924, Mr. Kelly applied for reinstatement and he was reinstated as an agent at \$2700 in the Huntington Division, reporting August 23, 1924, and where he served as a field examining officer.

Effective January 1, 1926, Agent Kelly was promoted to \$2900 and on January 1, 1927, to \$3000. On October 1, 1927, he was allocated to Grade CAF 9 without change in salary, but on January 1, 1928, was promoted to \$3200; on July 1, 1928, was promoted to \$3400; on February 16, 1929, to \$3500; on October 16, 1929, to \$3700; and on March 16, 1930, was promoted to Grade CAF 11 at \$3800. Effective April 1, 1931, Agent Kelly was placed in Grade CAF 12 at \$4600 per annum, which is his present grade and compensation.

The following are remarks as to his ability made by his various supervisory officers:

November 16, 1921

"This officer is doing as good work as any officer in the field. He is reliable and energetic. ****" Signed C. W. Herrick, Internal Revenue Agent in Charge.

December 1, 1922

"Officer proved quite efficient as a squad leader and is very capable and industrious. Has excellent knowledge of law and regulations and he is capable of meeting all accounting problems successfully." Signed R. A. Conway, Internal Revenue Agent in Charge.

January 12, 1923

"Officer proved quite efficient as a squad leader and is very capable and industrious. ****" Signed R. A. Conway, Internal Revenue Agent in Charge.

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Mr. Commissioner.

January 8, 1924

"Diligent with ability above average. ***** He also has the ability to impart this knowledge to the examining officers engaged on individual, partnership and fiduciary examinations. Mr. Kelly is also the reviewing officer of all protests, appeals or letters submitted by taxpayers relative to individuals, partnerships and fiduciaries***** Signed W. P. Mays, Internal Revenue Agent in Charge.

February 9, 1924

Agent Kelly resigned at the close of business this date.

August 22, 1924

Reinstated as agent in Huntington Division.

October 31, 1925

"Reinstated in this division August 22, 1924. Qualified to handle all classes of income and excess profits cases. ***** Signed Harry V. Bitting, Internal Revenue Agent in Charge.

April 30, 1926

Accorded efficiency rating for period of 94, which is "Excellent" but no comments made by supervisory officer.

October 31, 1926

Accorded rating for period of 94.25. "Agent Kelly is assigned all classes of cases. He is thoroughly competent and very valuable as a utility officer". Signed Harry V. Bitting, Internal Revenue Agent in Charge.

September 30, 1928

Accorded a rating of 89 by new internal revenue agent in charge, Mr. Leslie R. Miles, who recommends that Agent Kelly be promoted to Grade CAF 11.

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Mr. Commissioner.

September 30, 1929

"This officer's production record does not reflect his actual value to the service. He should properly be classified in Grade 11". He is accorded rating for the period of 90 by Leslie R. Miles, Internal Revenue Agent in Charge.

April 30, 1930

Agent Kelly is given a rating of 92. "A highly competent officer, especially valuable as he is qualified to handle all classes of cases." Signed Leslie R. Miles, Internal Revenue Agent in Charge.

January 26, 1931

He is recommended for Grade 12 because of transfer of cases previously examined by Travel Audit. by Leslie R. Miles, Internal Revenue Agent in Charge.

April 30, 1932

"A very efficient officer". Signed Leslie R. Miles, Internal Revenue Agent in Charge.

January 1, 1933

Transferred to Newark Division.

April 30, 1933

"The work which this officer has performed since being attached to the Newark Division leads to the thought that what was Huntington's loss was Newark's gain." Signed R. T. Miles, Internal Revenue Agent in Charge.

April 30, 1934

"Agent Kelly receives the highest efficiency rating among the examining officers of this division. He is an exceptionally highly qualified officer." Signed R. T. Miles, Internal Revenue Agent in Charge.

April 30, 1935

Is accorded a rating of 89.35 without comment by J. R. Baradel.

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Mr. Commissioner.

April 30, 1936

Is accorded an efficiency rating of 90 and has acted as Conferee since January 8, 1936. Signed J. R. Baradel, Internal Revenue Agent in Charge.

Supplementing the foregoing it appears that Agent Kelly is an outstanding examining officer and excellent conferee in the Newark Division.

The file does not disclose any political endorsements for Agent Kelly.

Chas. J. Russell

Deputy Commissioner.

February 6, 1937

Mr. Commissioner:

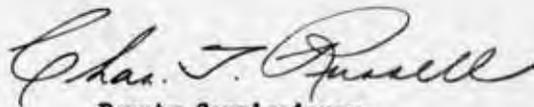
After a careful survey of the personnel of the Newark Division, I find there are only four employees in the Division which I could conscientiously recommend for the position of Internal Revenue Agent in Charge, and who, in my opinion, would receive the approval of the Secretary. They are:

Raymond Shotwell -
Rueben O. Thornton -
Joseph F. Kelly
John J. Morgan.

With respect to Morgan, in 1923, Senator Pepper recommended that he be transferred from the Huntington Division to the Philadelphia Division or that vicinity. In 1928, V. L. Highland, of Republican National Committee, recommended him for the position of Internal Revenue Agent in Charge of the Huntington Division.

You are familiar with the Intelligence Unit report on Agent Hogan which eliminates him from consideration.

The age and record of Agent Downey also eliminates him from consideration.


Deputy Commissioner.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 1, 1937.

To The Secretary

FROM Mr. Magill

After a good deal of difficulty, I succeeded in talking to Mr. Latimer over the phone at 5 o'clock today. I informed Mr. Latimer of the substance of the report on the Dow-Jones ticker relative to the tentative agreement between the railroads and the employees on the retirement plan. Mr. Latimer said that reporters had been after them and that he had told them all that no definite agreement had been reached and that Administration approval had not yet been received. He then told me that in the conference with the President on Friday, the President did not in any way commit himself to the approval of the tentative plan. The President merely wanted to know in general what was going on but did not inquire into or wish to learn about the details of the proposed legislation. Mr. Latimer said that he told the President that he had discussed the tentative agreement with us but that the Treasury had given no final word respecting it.

Mr. Latimer thinks that the report was given out by some of the railroad executives and not by the brotherhoods. He said that Mr. George Harrison, of the brotherhoods, expressed surprise that the report had gone out. Mr. Latimer said that a memorandum of the tentative agreement was being sent to 149 railroad presidents preparatory to securing their approval of it in advance, before the legislation is introduced. Needless to say, this is not a perfect situation as far as we are concerned since we will have much greater difficulty in securing changes in the legislation in the direction of increased payments either by the carriers or by the employees.

Rm

March 1, 1937.
9:45 a.m.

H.M.Jr: Bob, I'm spending most of the day studying your Housing bill.
Senator Wagner: Yes.
H.M.Jr: I wondered if by any chance you were free tonight.
W: I - by God I did make a dinner engagement, Henry.....
H.M.Jr: Wouldn't she let you off?
W: If there is any way I can get out of it I'll let you know.
H.M.Jr: Well now my wife is going to some women's dinner so I'm home alone.
W: Yes.
H.M.Jr: And I've asked nobody except yourself and if you could come I - I'd like to possibly ask one or two others but submit the names first to you.
W: Yes.
H.M.Jr: See?
W: Yes. Well can I call you up this afternoon, Henry, and see if I can get out of it - I made that about a week ago. It isn't a very important one but you know how people are sometimes.....
H.M.Jr: As I understand it we're meeting with the President at 11 tomorrow.
W: Yes.
H.M.Jr: And if you and I could sit down quietly, it would help me.
W: Yes. All right.
H.M.Jr: See?
W: Yes.

H.M.Jr: And - well let me ask - you might be thinking - how would you feel about having Ellenbogen there?

W: Ellen - all right.

H.M.Jr: What?

W: He's all right.

H.M.Jr: All right?

W: Yes.

H.M.Jr: Now do you want Steagall or not?

W: But Steagall is all right except he don't know a damn thing about my bill.

H.M.Jr: Why not just you, Ellenbogen and myself.

W: Yes.

H.M.Jr: What?

W: Yes, that will be all right.

H.M.Jr: Is that all right?

W: Yes, but will you let me see if I can get out of this thing, Henry?

H.M.Jr: Sure and I'll do nothing till I hear from you.

W: All right, fine, Henry.

H.M.Jr: But it would - I mean it would be very helpful to me if we could have a couple of hours' talk.

W: Yes. All right, Henry, I'll see if I can't get out of that thing.

H.M.Jr: Well that - that's awfully nice.

W: All right.

H.M.Jr: Thank you.

W: Goodbye.

March 1, 1937.
2:35 p.m.

H.M.Jr: Hello

Woodring: Yes.

H.M.Jr: Harry?

W: Yes, Henry.

H.M.Jr: How are you?

W: All right.

H.M.Jr: Harry, beginning last July - wait a minute I've got my letter here - 21st of July I've been corresponding with the War Department about a place to put our silver vault?

W: Yes.

H.M.Jr: And, frankly, I've never been able to get the President to say where he wanted it up till to-day.

W: Ah-ha.

H.M.Jr: And to-day I showed him the plans and he said that as far as he was concerned it was perfectly agreeable if we could get together with you to put it at West Point.

W: Ah-ha.

H.M.Jr: Now originally you submitted us eight different sites.....

W: Ah-ha.

H.M.Jr:and site No. 5 was the one that we'd like to have.

W: No. 5.

H.M.Jr: Yes.

W: Ah-ha.

H.M.Jr: Now - ah.....

- 2 -

W: How many sites at West Point?

H.M.Jr: You submitted eight different sites.

W: Eight different sites.

H.M.Jr: Yes.

W: Yes.

H.M.Jr: Now - ah - at site No. 5 is the one which is furthest from the academy.....

W: Yes.

H.M.Jr:and way back up there in the hills.....

W: Ah-ha.

H.M.Jr:and, frankly, I'd like awfully to get together and get started.

W: Ah-ha.

H.M.Jr: And - ah - the Navy has offered me a place down at Philadelphia but I should think, from a standpoint of national defense, it wouldn't be nearly as good.

W: Ah-ha. I wouldn't know. Ah - if you want - you tell me what you want done and we'll start at it.

H.M.Jr: I'll tell you what I'd like done.

W: All right.

H.M.Jr: I'd like to have site No. 5 at West Point as I wrote you last July.....

W: Ah-ha.

H.M.Jr:and if we could have that why we'd go ahead merrily.

W: All right, let me go into it - say tomorrow morning....

H.M.Jr: O.K.

W:and - and see what I can do on it and get in touch with you.

H.M.Jr: Right. May I say in passing, I don't think it did the Army any harm - our putting the gold in Kentucky there.

W: No (laughs) - no I don't think so.

H.M.Jr: Well I think you got a lot of publicity on it.....

W: Yes.

H.M.Jr:that's very good publicity.

W: I think so.

H.M.Jr: I mean it showed up what kind of a unit you had.....

W: Yes.

H.M.Jr:the efficiency of the Army and all that.

W: Well I see no reason. I - I'm not familiar with the correspondence on it but I'll look into it and I'll get in touch with you tomorrow about it.

H.M.Jr: That would be very kind.

W: All right.

H.M.Jr: Thank you.

W: Goodbye.

March 1, 1937.
3:10 p.m.

H.M.Jr: Hello
George
Harrison: Hello, Henry?
H.M.Jr: Hello - George?
H: Yes, hello Henry, how are you?
H.M.Jr: I understand you're somewhere but nowhere.
H: What's that?
H.M.Jr: I understand you're in Washington but that you
won't tell anybody where.
H: Well I've been on the go ever since I got here.
I came in this morning.
H.M.Jr: That's all right, I'll take your word for it.
H: And I called you.....
H.M.Jr: Yes.
H:and this is the first chance I've had to call
you back. I just want to report to you I'm back
in civilization again.
H.M.Jr: Are you?
H: When - when is our meeting, Henry.
H.M.Jr: Wednesday.
H: Wednesday morning?
H.M.Jr: Yes.
H: First rate, I'll be here.
H.M.Jr: Did you kill any more quail than my Assistant
Secretary?
H: Oh we killed about twice as many as Wayne' spotted.
H.M.Jr: And how much does that make four?

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H: And I'm the only one that's gotten in - well I'm the second one to get in touch with you here.

H.M.Jr: Oh really?

H: I've gotten the biggest one that's ever been caught down there so tell him that for me?

H.M.Jr: Caught?

H: What?

H.M.Jr: Caught? The biggest one that's been caught?

H: Caught, yes you run after them and catch him by the tailfeathers.

H.M.Jr: (Laughs heartily) With a - with - with sugar or salt.

H: Salt - a little salt.

Laughter by both.

H.M.Jr: Well George I'm fine and everything seems fine and if you're going to be down here Wednesday it's swell.

H: I think I'll probably go back tonight but I'll come down again tomorrow night.

H.M.Jr: Good. I'll be glad to see you and - and I think everything looks all right.

H: First rate, well I think so too from what I hear.

H.M.Jr: Yes.

H: Fine.

H.M.Jr: Be glad to see you, George.

H: All right, I'll be there.

March 1, 1937

4:45 p.m.

PRESENT:

Ambassador Bonnet
Mr. Jules Henry
Dr. Livesey
Secretary Morgenthau

The Ambassador: Monsieur Blum and Monsieur Auriol asked me to tell you how much they like your policy and how happy they are for our friendly relations. I am very happy to speak with you about the financial policy and about the financial questions. The French financial situation is evidently difficult, but we have in France a recovery. The receipts of railways are increased and the business taxes are also increased and the index of our industrial position is also better. We are like many other countries. Our budget is not balanced and, therefore, the Treasury must give important sums to the budget. I know that it will be possible for the Treasury to furnish these important sums to the budget during the next six months. When I was Minister of Finance, in 1933, at that time the budget had to borrow 20,000,000,000 francs in six months.

HM, Jr: What year was that?

The Ambassador: In 1933. Evidently it is not the same times as now, but the Treasury has no more important effort today than it had at that period.

Mr. Henry: It is not a more important effort at this time than at that time.

HM, Jr: I do not know whether the Ambassador wants me to interrupt, but I do not want him to think that my silence means that I agree.

The Ambassador: I believe that the task now is more difficult than my task was in 1933. I believe that it is not impossible to accomplish this task. I think that the

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important question for us is the question of definitive stabilization of moneys, because while the moneys are fluctuating it is very difficult for our Treasury to find the sums that are necessary for us. Monsieur Auriol's borrowings are difficult but not impossible and, therefore, the French Government is convinced that it would be very important if you could arrive at the definite stabilization of our moneys and the questions of the Treasury and the budget that are now very difficult would be more easy to solve if you could arrive at the definite stabilization of our moneys.

HM, Jr: When you talk of definitive stabilization do you mean that they stabilize at the present rate or devalue further?

The Ambassador: It is not a question of new stabilization for the French Government.

The Ambassador: Speaking in French and interpreted, as follows; by Dr. Livesey:

There is no question of further devaluation.

HM, Jr: What the Ambassador is talking about is fixing the present price of the franc definitely.

Dr. Livesey: He does not mean that the franc should be stabilized at today's value, but it should not fluctuate.

HM, Jr: I still do not understand.

HM, Jr: (To the Ambassador) Under your law of October 1 you could devalue another 8%.

The Ambassador: Yes.

HM, Jr: (To Mr. Henry) When he is talking about definite stabilization is he talking about the present value of the franc or possible stabilization at a further devaluation?

Mr. Henry: (Interpreting into French the Secretary's question and interpreting the Ambassador's answer into English)

He means when he says stabilization he has in view that

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the franc can be reduced within the limits of the law.

The Ambassador: I understand that it is not a question of a new devaluation beyond the limit fixed by the stabilization law of October first.

Mr. Henry: When he says devaluation he does not mean further devaluation than the October law provides.

The Ambassador: The law of devaluation provides the extreme limit of 22 francs 50 centimes for a dollar. It is this limit that we cannot pass.

HM, Jr.: I understand.

The Ambassador: Speaking in French and interpreted, as follows, by Dr. Livesey:

If they take another limit they would have to go before Parliament.

Mr. Henry: The Ambassador has a message to give you from Monsieur Auriol saying how much he appreciates your cooperation of last September.

HM, Jr.: I never had the pleasure of meeting Monsieur Auriol, but I hope some day that I will.

I would like to say this to the Ambassador: I am not a trained diplomat and I consider, and can only say so in my own office, that the situation is very critical. I do not know how frank he wants to be.

The Ambassador: Completely.

HM, Jr.: The situation is so serious that either it is necessary to be very frank or we cannot help each other.

The Ambassador: Speaking in French and interpreted by Mr. Henry:

The Ambassador agrees with you.

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HM, Jr.: While I realize very well the economic recovery which France has made since devaluation, I am also conscious of the fact that your unfavorable balance of trade has been constantly growing worse due to your increased imports. It is not for me to say what France can do or cannot do internally, and even if I knew, which I do not, I would not attempt to give any advice. I have been constantly getting more depressed about the French situation and the information that I receive is available to everybody.

(At this point the Secretary called to the attention of the Ambassador the Wall Street Journal article of today. The clipping is attached.)

I think it is of tremendous importance that the Tripartite Agreement continue and we want to do everything possible, but I just do not know what is going to happen during the rest of this month on account of the large quantities of gold leaving France. I think both the President and I have demonstrated our real friendship for France and we want to do everything we can and still live up to our own laws.

From the information which I receive I know that there has been an exchange of letters between Monsieur Blum and Mr. Baldwin within the last two weeks on the monetary situation, but of course I want to say again that I can only say in my own office how I feel about the French situation. I do not say this anywhere else and if the Ambassador at any time has any suggestions and thinks that we can be helpful, always remembering our American laws, I would be more than glad to discuss it with him.

The quick rising of your prices offset the benefit of devaluation, so you have not received the full benefits of your devaluation.

I wish I could be more cheerful and do not like to be so pessimistic the first time that the Ambassador calls on me, but the situation is so serious that I feel the quicker we get down to business, the better. I wish I could say that everything was lovely, but the Ambassador is an experienced man and I do not want to waste his time by saying pretty words.

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The Ambassador: Speaking in French and interpreted, as follows, by Mr. Henry:

He thanks you very much for your frankness.

HM, Jr: The situation is too serious to be otherwise.

The Ambassador: I tried to examine the situation very frankly and during this question of the law of stabilization I spoke as Representative in the French Parliament and at that time, in September, I indicated all the difficulties that the French Government would have. Therefore, I am without illusion because myself I explained from the tribune at the French Parliament four months ago all the difficulties that were coming.

The Ambassador: Speaking in French and interpreted, as follows, by Dr. Livesey:

That was the reason he believes it is well not to exaggerate at the present time. The French Treasury has three months, until June, before they have an increase of revenue in the Treasury.

The Ambassador: During the first months of the year the direct taxes do not come in; they come only in the second part of the year and it is one of the reasons for the difficulties of our Treasury now. But there are also other reasons for our difficulties, but I think that if the French Treasury can arrive at the month of July without too many difficulties, I think the situation could be established.

HM, Jr: When does your Exposition start?

The Ambassador: In May.

The Ambassador: Speaking in French and interpreted, as follows, by Dr. Livesey:

The policy they wish to follow is wholly in conformity with the Tripartite Agreement.

The Ambassador: We want to avoid control of the exchange.

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The Ambassador: Speaking in French and interpreted, as follows, by Dr. Livesey:

They want to remain wholly in accord with the monetary understanding and to remain faithful to the Trade Agreement with Mr. Hull.

HM, Jr: That is our wish too.

The Ambassador: I thank you very much for your friendly reception and if I have projects to submit to you I would like to come to see you.

HM, Jr: We will always be glad to see you.

French Popular Front Government Takes Moderate Attitude Towards Capital—Recovery Before Reform

BY CHARLES R. HARGROVE

Staff Correspondent of THE WALL STREET JOURNAL

PARIS—A policy of moderation, calling for national recovery before extension of economic and social "reforms," has been adopted by Premier Leon Blum and his Popular Front cabinet.

The decision was forced upon the veteran Socialist leader, who has found that his left-wing coalition's program has definitely blocked the business upswing.

Friday's debate and subsequent action of the Deputies in voting confidence in the cabinet, apparently proves that the Blum government is unshaken in the Chamber and still backed by millions of industrial and farm workers.

At the same time, the Premier is still struggling with what can best be described as a sit-down strike of capitalists. On the basis of tactics revealed, M. Blum does not propose to war on the capitalists but rather continues to rely on their eventual assistance. The chief hope of the Premier is based on the possibility of developing economic recovery and the desire of the French monied groups to share in the profits of any business upswing.

Real Purpose of 'Pause'

Thus, the real purpose of Premier Blum's announced "pause" or breathing spell in economic and social "reforms" is to enable the government to undertake a program designed to overcome obstacles to recovery. For example, the cabinet is undertaking the most strenuous plans to surmount the dangerous price situation, which has skied the cost of living and is a definite peril to the financial structure. Meanwhile, there is every indication that new and costly social reforms will be postponed. They could only result in accentuating the existing deep distrust in the financial and monetary situation,

and sharpen the antagonism between capital and labor.

It is clear that the "pause" is to be one of indefinite duration and in all probability will last until after the elaborate Paris Exposition is closed. It is equally clear that several months must elapse before national recovery can develop to a point where capital may begin to loosen up. But, in the meantime, the Treasury situation must remain difficult, and the government will be forced to rely on temporary expedients.

There is as yet no indication as to what the Treasury expedients will be. On the one hand, there are influences urging restrictive, coercive measures against capital. The leader of the French Labor Federation now openly demands such strong action on the part of the Popular

Please turn to Page 3, Column 4

French Cabinet Policies

(Continued from First Page)

Front government. On the other hand, there are even stronger influences favoring abandonment of all remaining restrictions on gold, money and the capital markets.

Harmonize With External Policy

It is argued that the latter course would harmonize with Premier Blum's external policy and pave the way for closer French, British and American cooperation in all fields. M. Blum's repeated condemnation of the existence of practical anarchy in France is especially significant. He is determined, apparently, to follow the road of economic and financial liberalism and leading members of his cabinet, for example Finance Minister Auriol, are entirely with him in this determination.

The Finance Ministry's actual strict limitation on all expenditures, including even public works, further reflects the government's trend toward moderation in its dealings with capital. All told, any attempt to terminate the capitalists boycott by violent measures appears excluded from the realm of possibilities.

May Seek Funds Abroad

In the event the French stabilization fund becomes in need of new resources, they will probably be sought abroad or else by further utilization of the Bank of France's gold holdings. If the Treasury again runs dry, numerous courses are open. The stabilization fund's idle franc balances may be used, if direct borrowings from the Bank are not made. However, if new foreign credits or loans become available neither of the above-mentioned expedients would be necessary.

The idea of currency stabilization does not now appear either practicable or advisable, unless attempted in conjunction with a large Anglo-American stabilization loan. However, a recent statement by Finance Minister Auriol in the Chamber, suggests that he still contemplates a domestic, national defense loan.

Domestic national or local loans, with tax privileges or gold or sterling guarantees, have also been suggested as among the possible courses of action.

Immediate Problem of Financing

However, the immediate problem is essentially one of financing during the next two or three months on the assumption of a business boom with the opening of the new exposition and the subsequent tourist influx. If the Popular Front government can succeed in halting the current dangerous price stampede, a business boom cannot be excluded from the possibilities.

What is evident at the moment is that the Popular Front experiment must be continued. It is impossible to consider its collapse without bringing with it the gravest peril to internal order and external safety. The appreciation of the realities of this situation is the factor which neutralized the recent bitter attacks on the Blum cabinet in the Chamber of Deputies.

Blum continues serene as ever, despite a turmoil of attack and criticism, because he knows that even his enemies appreciate that France dare not swag horses.

RB

GRAY

Paris

Dated March 1, 1937

Rec'd 5:12 p. m.

Secretary of State

Washington.

288, March 1, 5 p. m. (SECTION ONE).

FROM COCHRAN.

There was a fairly steady demand for foreign exchange today but Bank of France is stated to have lost little sterling. There appears to be some private offering of sterling against francs as weakness of sterling against dollar becomes evident. Soviet Government reported to be buyer of sterling today. Rentes dropped two francs due in part to disappointment to see some local French elections yesterday go to the Left. Understand that one Paris-American bank which has been having certain difficulties in getting paper rediscounted at Bank of France has notified its customers that hereafter paper for rediscount must be deposited forty-eight hours with the bank, awaiting decision from the Bank of France as to the acceptability of the transactions. French hotels are complaining of increase in operating costs and may have

to

RB

-2-//288, March 1, 5 p. m. from
Paris (SECTION ONE)

to raise rates before tourist season unless relief is obtained.

Parker Willis cables AGENCE ECONOMIQUE that in connection with early presence in Washington of Ambassadors Bullitt and Bonnet and several important Britishers, general economic negotiations between the three countries are expected. Some of the questions which Willis says are considered certain to be studied at Washington are: (One) improvement of the tripartite monetary agreement with the view to bringing about some correction to the run of gold which is going one way. (Two) Problem created by the investment of foreign capital in the United States. (Three). Correction of the situation which results from the trade agreements. (Four) Eventual modification of the Johnson law to permit placing foreign loans in the United States.

The reporter added that certain circles desire a study undertaken seeking a basis for settlement of war debts.

WILSON

SMS:MPL

SECTION TWO. No 288 from Paris, March 1, 1937

At four o'clock this afternoon Under Governor Fournier of the Bank of France called representatives in Paris of Anglo-Saxon banks to his office for a meeting. An oral summary of this session was just given me by one of the American bankers who was there. This banker said that the present French exchange situation was outlined by Fournier, Fournier said that the Bank was not going to inaugurate any exchange regulations or restrictions, but that it should be understood liberty did not mean license. He expressed the hope that there would be cooperation by the foreign banks with the Bank of France toward avoiding transactions which under the present circumstances would be deemed undesirable. Three such situations were outlined by Fournier:

First - Speculation against the French currency through French people or concerns which wanted foreign exchange or foreign currency when the actual need therefor could not be shown. Fournier asked that the banks discourage such transactions, as well as purchase by French individuals or concerns of foreign securities.

Second - Fournier asked that the bankers place obstacles in the way of foreign companies which might want to move money out of France when such a transaction was not required by the legitimate business of those firms. He said that his Bank does not want importations into other

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countries to be financed on the market in France.

Third - Fournier discussed credit policy; he said that in a period of economic revival such as is now being experienced, it was the desire of the central Bank to avoid higher interest rates and at the same time to provide credit to those who were in actual need of credit. However, they wanted to check exaggerated and speculative demands. In particular he mentioned transactions which had developed at Havre, Lille and Roubaix in coffee, cotton and wool. Fournier said that his Bank does not want long-term financing to be used for bringing in goods that will be needed in the distant future. In this connection he cited an instance where certain Havre firms were buying cotton for two years ahead. Further, 30 percent of the activity in coffee and cotton at Havre, he said, emanated with people having no business therein except as speculators. In addition he requested Banks to keep a watch over commercial paper where cotton importers are drawing on the spinner and seeking repeated renewals of the paper without making deliveries to correspond therewith.

I was told by my contact that Fournier did not at all criticize the foreign banks. However, the foreign bank representatives who attended the meeting thought that the meeting was significant of the exchange situation prevailing in France. It was felt generally that while the

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French Government does not want to impose exchange control; the authorities had decided that unless the present trend is corrected they may actually bring it about. Fournier was making an appeal for the bankers themselves to do as much as possible to avoid this.

I questioned my contact as to whether the Bank of France had in any way sounded out the foreign banks as to their willingness to help the Treasury in its present need for funds; he said there had been no mention of it. Even if such ~~fund~~ deposits as are at present in English and American banks in France were turned over to the French Treasury, they would be so small as to amount to not as much as two billion francs, and therefore the Treasury would not be helped much thereby.

END OF MESSAGE.

WILSON.

EA:LWW

March 1, 1937.
5:35 p.m.

Operator: I have his Secretary.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello

Bankhead's
Secretary: How are you Mr. Secretary?

H.M.Jr: How do you do. The Speaker called up and told me he was coming - stopping by at 9:30 tomorrow morning.

B.S: Yes.

H.M.Jr: Since then I've gotten word the President wants me at the White House at 9:15.

B.S: Yes sir, well that will.....

H.M.Jr: Well now I don't know - pardon me?

B.S: I say you'll have to go with the big boss there.

H.M.Jr: Well (laughs) I don't know but I wondered if the Speaker could let it go to Wednesday or whether he'd like me to come up or what would you suggest.

B.S: Would you like to talk to him Mr. Secretary?

H.M.Jr: If it doesn't bother him, yes.

B.S: I'll tell you what - you could get him at the Mayflower - District 3000.

H.M.Jr: Well I mean - do you think I better bother him?

B.S: Why it will be perfectly all right, yes sir.

H.M.Jr: Is he there now?

B.S: Yes sir, he's there now.

H.M.Jr: Well I'll call him.

MEETING IN RE WAGNER HOUSING BILL
AT 2201 R STREET

March 1, 1937
3:30 P.M.

Present: Mr. Gaston
Mr. Opper
Mr. McReynolds
Mr. Leon H. Keyserling (Sec. to Senator Wagner)
Mr. LeRoy Barton
Mr. Dunning
Mr. Lindow

Keyserling: This is just an analysis section by section.

The first section is just a general declaration of policy.

The second section contains - the second section includes the definitions. The only one that is of any particular importance has to do with trying to set a standard for keeping the projects down to families of low income.

There are really two standards in the bill dealing with that subject. One is administrative and binding upon the housing authority, and the other is financial in that, no matter what good standard you have, you could hardly get down to families of low income if you didn't have the right financial set-up.

The administrative standard is simply that no family shall be available for entry into a project if its income is more than five times the rental charged. That means that once the rental is charged, the family could not have an income of more than five times that. That figure is based upon the general studies of the Department of Labor and other groups as to about what part of a low income family's income could be devoted to rentals.

I'll go through it section by section and that will bring me to the question of the substitute a little later.

H.M.Jr: You've got it written down, though.

Keyserling: Yes.

H.M.Jr: Fine. Something that I can give the President?

Keyserling: Yes.

The third section sets up a United States Housing Authority of three members. We had thought that there were only really two agencies of the United States Government that were doing either real low cost housing or anything like that. I think Resettlement ought to be put aside at once, because it deals only with rural and suburban questions, and I don't think it is low rent housing anyway; I think it's very high cost housing. The Public Works Authority is the other one. So that if this body were set up as a separate agency, you would have two: the Public Works Housing Division and this Authority. So that if it were desired to have only one, there would be one of two alternatives: either to put this agency in the Public Works Housing Authority, or to provide for the transfer of Public Housing Authority to this agency. The bill as now drawn gives the President discretion to transfer the projects of the Public Works Housing Division to this authority.

(Gaston comes in)

H.M.Jr: Have you met Mr. Keyserling? Mr. Gaston.

Gaston: How do you do? - -

Keyserling: And with those two alternatives in mind, the bill as now drawn picks the second of them. That is, it sets up the second, a separate authority, and authorizes the President to transfer these projects.

The only consideration - I don't know, Mr. Secretary, whether you just wanted a summary of the bill...

H.M.Jr: If you will just keep on the way you're going...

Keyserling: The considerations that...

H.M.Jr: You are doing just what I'd like to have you do.

Keyserling: It was thought best at the beginning not to handicap this new agency with all the mistakes that may have

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been made by some of the housing agencies in the past, particularly since this sets up such a very different series of financial arrangements and an administrative set-up by which it would be simpler to transfer these projects to this agency than to set up this agency with all the personnel and all of the problems of the Public Works Housing Division. Those were the considerations.

Sections Six, Seven, and Eight deal with routine provisions giving certain powers to the Authority just as a body. There is nothing substantial in them.

Opper: I just - Section Five comes in there - that tax exemption.

Keyserling: Section Five provides that all the properties and assets of the Authority shall be exempt from all Federal and state taxes. The section which provides that all the property and assets of the United States Housing Authority shall be exempt from all Federal and local taxation is a rather standard provision. However, there is coupled with it the reciprocal provision that any bonds issued by local housing authorities to raise money for housing purposes would be exempted from all Federal taxation. The theory in back of that was that that would be one relatively cheap way of extending aid to the local authorities for low rent housing projects.

At the meeting this afternoon there was suggested an alternative: that instead of exempting the bonds of the local authorities from all Federal taxation, to exempt them only from those forms of taxation that the bonds of the Federal Authority are exempted from; that is, taxes except surtaxes, state income, and inheritance taxes. The third alternative suggested was that they should not be exempt from taxation at all, and it was just left at that point for submission to you.

H.M.Jr: I see. Well, that's Section Five. I mean I'm going to let you run through the whole thing, if you don't mind.

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Keyserling: Section Nine... I've said that Sections Six, Seven and Eight are merely routine provisions for the administration of the Authority. They don't raise any problems.

Section Nine, which is really the center of the whole bill, is the section dealing with the loans and grants to local authorities for housing projects constructed and administered by the local authorities and not by the Federal Authority.

The first part of that, which deals with grants, provides - it has been provided in the past that the grants may be up to one hundred percent of the project - it provides that the grants must be repaid in full and that the interest rate on the grants shall not in any case be less than the cost of money to the Federal Government, as determined by the obligations of the Treasury having a term of ten years or more.

Several: The loans!

H.M.Jr: Don't all jump on the poor man at the same time, although I think he can take care of himself.

Do it again, if you don't mind. They scared me. Remember, he's our guest.

Keyserling: Well, anyhow, the provision is that the loans, which shall be repayable in full, must bear at least what is called in the bill the going Federal rate of interest, and the going Federal rate of interest is defined in the bill as the interest on the most recently issued obligations of the Federal Government having a term of ten years or more.

H.M.Jr: Let me - I haven't got that right yet. The United States Housing Authority lends a million dollars to the New York Authority. Now, the New York Authority pays them whatever - the interest rate is whatever the last rate I sold - the last bond I sold was a 17-year 2½ percent bond.

Keyserling: Then the interest rate would have to be fixed at at least 2½ percent.

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H.M.Jr: As a minimum?

Keyserling: Yes, but it could be higher.

H.M.Jr: How high?

Keyserling: There is no maximum rate set.

H.M.Jr: I see. Not less than $2\frac{1}{2}$.

Keyserling: It was suggested at the meeting that that provision should be changed to provide that the interest rate should be the same as the interest rate upon these particular bonds; that is, the money raised by the Federal Government for this particular purpose.

H.M.Jr: If it was three percent...

Keyserling: ...then the interest rate should be at least three percent. If that provision were made, it would be entirely in accord with the financial provisions of the bill generally, because the intent is to set the bonds off very clearly from the annual contributions or grants and to provide that the bonds shall be retired in full over a period of years at a fixed rate of interest not less than the cost of money to the Government.

H.M.Jr: I see.

Keyserling: The bonds are also secured by the projects. And it is also provided that the outstanding loans shall not be more than the cost of the project less loans by other parties, so that it wouldn't be possible for other parties to have loans senior to the loans of the Authority. The effort is to put the bonds on a straight financial basis, without mixing them with the grants.

Then the bill secondly provides grants to low rent housing projects.

H.M.Jr: To what?

Keyserling: Grants. In addition to the bonds it provides grants.

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These grants represent quite a departure in policy from the grants that have been made in the past to low rent housing projects by the P.W.A. and the other agencies of the Federal Government. The departure, in the first place, is that there shall be no capital grants whatsoever; that is, a grant of 45 percent of the cost of the project immediately. It was felt that capital grants encouraged very large building costs, and secondly that when the capital grant was made the Federal Government practically lost control of the money or of any check upon the projects, and therefore could not in any way control the availability of the projects for people of low incomes.

H.M.Jr: Just let me interrupt you for a moment. I thought that Mr. Ickes did all his own building.

Keyserling: He has been doing his building, but now he is trying to decentralize his program.

H.M.Jr: But I mean the 53 projects. He did that himself.

Keyserling: He did that himself.

H.M.Jr: So - I mean the fact that he gave grants wouldn't influence - you couldn't - if he gave himself a grant, so to speak - I mean you can't charge that up as the reason why the costs are high, can you? I mean the way he's done the 53.

Keyserling: Well, as I understand it, Mr. Secretary, although he has done the projects himself, he has kept an accounting which sets up a certain amount for grants and a certain amount for loans. I believe that the original rate of interest charged on the loans was three percent. That is the accounting system which was set up.

H.M.Jr: But isn't it - as I understand it, the net result is that he takes a million dollar project, builds it, and then immediately writes off 45 percent, and on the balance of 55 percent he charges three percent for the 59 years. Isn't that the way he runs it?

Keyserling: Yes.

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H.M.Jr: Haven't I got that right?

Keyserling: Yes.

H.M.Jr: I didn't want to get mixed up. I'm sorry - I'd much rather let you run through this bill first.

Keyserling: I think it may be - it is probably - it seems to me that that is quite true, that you might not have that problem there. However, if you set the thing up on a decentralized basis, as Mr. Ickes now proposes, with the local authorities controlling the projects, you would have much less control with an original capital grant than with the yearly subsidy item provided under this bill.

H.M.Jr: I don't know how these people feel, but I feel that is a move in the wrong direction. I feel if the Government is going to put up all the money or part of the money, I think we can build with less money than the local communities and there is less chance of graft.

But I'd like, if you don't mind, to finish an analysis of this bill.

Keyserling: Well, the form of annual subsidy which is set up is modeled very much after the system that is still being used in England. In other words, at the beginning of the project a contract is entered into for fixed and uniform contributions over a period of years. There are standards in the bill that provide that if at any time the projects are not available for families of low income, the annual contributions may be stopped, or if any of the other standards set up in the bill are deviated from.

The size of the annual contribution is measured by the cost of the money to the Federal Government at the time the grant is made, plus one percent. That is, if the loan was made at $2\frac{1}{2}$ percent, which is about the Federal going rate of interest now, the annual contribution, as a maximum, could be $2\frac{1}{2}$ percent plus one percent, or $3\frac{1}{2}$ percent per year.

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That annual contribution may be measured, I think, in three ways. It may be measured in terms of its effect upon rentals; it may be measured in comparison with the grants that have been made in the past to housing projects; and it may be measured in terms of its total cost to the Federal Government over a period of years.

If it is measured in terms of its effect upon rentals, it gets a rental that may be illustrated in this way. If you have a \$4,000 family dwelling, which is a thousand dollars per room for four rooms, let's say, for a family of five or six people, which is a fairly low building estimate, the amount of money required to amortize that loan over a period of sixty years at $3\frac{1}{2}$ percent interest as an average would be about \$40. Another \$40 approximately would be required for maintenance, operation, repairs, vacancies, and the like. That would give an annual cost of \$80 on the project per room; these \$40 figures were per room.

H.M.Jr: Per room per year.

Keyserling: Yes; which would be a cost of about \$320 on the project per year. If there were no subsidy, that \$320 would be covered by rentals and would make the project available for a family with an income, say, of seventeen or eighteen hundred dollars a year, figuring that the family income must be at least five times the rental.

Under this bill the maximum annual subsidy would be approximately $3\frac{1}{2}$ percent of that development cost, which would be about \$140. Deducting that \$140 from the \$320, you would get a net of \$180, which would be about \$3.80 per room per month, which would bring it within an income group of approximately a thousand dollars a year, which is about the group that you want to reach.

You can get different results on these annual subsidies by taking different assumptions as to the capital cost of the house, different assumptions as to the amount of Federal money at $2\frac{1}{2}$ percent and the amount of private money at, say, $4\frac{1}{2}$ percent that goes into the project. But when you work it out for

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the different possibilities, you find that you can fairly say that you can get a normal rental ranging between, say, three and a half dollars and five and a half dollars, which brings it within income groups of eight or nine hundred at the lower level and twelve or thirteen hundred dollars a year at the upper level.

If that is contrasted with the grants and loans authorized under the present housing programs, you find that it brings the rental down, ranging from one and a half to two and a half dollars per room per month lower, depending upon the particular set of circumstances.

H.M.Jr: Now, is that the whole bill?

Keyserling: There are some other provisions.

H.M.Jr: Well, let me just ask some of our boys - who wants to contribute anything before I start in? Now, you (Oppen) didn't say anything about your question of eminent domain.

Oppen: Well, that is in here (referring to paper in his hand), Mr. Secretary, and I haven't got a very good draft of this thing.

H.M.Jr: What's this?

Oppen: This is the copy from which that one was made. It's all marked up. The statement is, however, that the bill in no way removes the obstacles confronting other agencies in attempting to exercise eminent domain under other statutes. In other words, as far as the development of the law of eminent domain by the Federal Government is concerned, if we were to stop where we are now, you would have to say that you have no right of eminent domain for housing purposes, even though the Federal Government itself is going to do the construction.

H.M.Jr: You mean it hasn't overcome that?

Oppen: It hasn't overcome that Louisville case, which never went to the Supreme Court, but which didn't go through because the Solicitor General apparently decided it wasn't a good case to decide the issue on.

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H.M.Jr: Now, this memorandum which you prepared for me to the President - are you all in agreement as to what it says?

Opper: We are all in agreement as to the statements.

H.M.Jr: Purposes of the bill.

Opper: What the bill says. As to the comments, I think we....

H.M.Jr: But as to what the bill says?

Opper: That's right.

H.M.Jr: Have you got a clean copy?

McR: Give him your original.

Opper: There is the original copy.

H.M.Jr: What's this which is attached?

Opper: Those are tables from which you can work out the various room rents under certain assumed facts.

H.M.Jr: I see. Well, you fellows have been busy. Now, who wants to explain that?

Opper: Well, I - it's Mr. Keyserling's table, but I'll try.

Now, the first assumptions were two different ones for the cost of the project. This one was a cost of \$1333 per room capital cost, which Mr. Keyserling got from the latest report of the Federal Housing Administration as to the minimum average cost of private projects which they've insured - mortgages.

H.M.Jr: Oh, I see. That's Federal Housing?

Opper: Federal Housing, that's right.

Now, this (\$1000) is a very low estimate, is that right?

Keyserling: Yes, that is a very low estimate of cost.

Opper: That's the thousand dollars per room - capital cost

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per room. That comes under this (indicating on chart).

Now, supposing you took the \$1333. Now, in the actual experience of the private enterprise, the rent per room was \$13.82 and the group income \$3317.

H.M.Jr: I see.

Opper: But there is nothing over here (under \$1000 heading) because there is nothing of comparable experience. Now, under the thousand dollar capital cost, if it were possible, which Mr. Keyserling doesn't think for private enterprise is possible, the rent would be \$10.37 a room and you would reach an income group as low as \$2489 a year.

Now, these are various assumptions under the Wagner Act, falling into three categories. In the first place, you assume that you pay no local taxes and no amount to the community in lieu of local taxes.

H.M.Jr: That's under the Wagner Bill?

Opper: That's right. And these things are set up on two hypotheses. First, that all the capital is furnished by the Federal Government, none from private funds. Then, assuming that the subsidy is 3½ percent - that is, the maximum - the rent could be \$2.34 a room, and you would hit an income group of \$562 a year.

Now, over here, you see, but assuming the cost of \$1333, you would get a cost per room of \$3.12 and an income group of \$749 a year.

Now, assuming that the subsidy is only 2½ percent - and that is based on this possibility: Mr. Keyserling suggests that there may be private capital willing to come in and make the first mortgage on these projects, so to speak; that is, to lend money to the local housing authority on the basis of, you see, partly tax-exempt bonds and a higher interest rate.

H.M.Jr: I thought he (Keyserling) said that there would be no obligation.....

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Opper: I remember that, but I think what he meant was that the total...

Keyserling: What I meant to say, Mr. Secretary, was that the Federal Government could not loan upon the projects for an amount greater than the difference between the outside loans and the total cost. In other words, if these outside loans were sixty percent, then the Federal Government could loan only forty and not a hundred, in order to protect its own interests.

Opper: Now, assuming that there is some private capital, Mr. Keyserling, at - of course, you'll have to pay higher interest for private capital, so in your....

Keyserling: But on the other hand you get a billion and a half of total money into these projects instead of a billion.

Opper: Well, with a limitation of ten million dollars a year on the amount of grant that the Federal Government can contribute under the bill, in order to spread it over that whole program, you couldn't give more than 2½ percent of that billion and a half by way of subsidy. So he's assumed the possibility of that by the inclusion of this figure of \$3.34 rent per room per month and an \$802 income group; and under \$1333 it would be \$4.45 per room and \$1068 as the income group.

Now, here he assumes a half of the capital contributed by private sources, and there the assumption is that four and a half - you see, the underlying assumptions are the same in this 2½ percent and this - that is, that some private capital will come in. But here he is assuming a project which is entirely financed by the Government and here he is assuming a project half of the financing of which is private, on a 4½ percent, 30-year basis; in other words, half of the length of time of the Federal loan and a higher interest rate. And on that basis you get these figures.

Then, if you pay half the local taxes - this was no local taxes - half the local taxes, this same

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breakdown here gives you these figures. And paying all local taxes, the same breakdown gives you these figures. There is some more on the next page.

(Barton and Dunning come in)

- H.M.Jr: Well, let me just get this through my head. As I get it, Mr. Ickes had 130 odd million dollars which he was authorized to spend for low cost housing, and he was limited by law to a 45 percent grant. Now, have you (Lindau) got your figures here from there?
- Lindau: I can go on, yes.
- H.M.Jr: I mean I just want to ask did Mr. Ickes give you the figures?
- Lindau: No, not those figures.
- H.M.Jr: Well now, taking the 45 percent grant and taking three percent for the money, and how many years' amortization?
- Lindau: 59.
- H.M.Jr: Does Mr. Ickes take 59?
- Lindau: He's authorized to go to 60, but he's taking 59.
- H.M.Jr: I thought he took less.
- Lindau: 59 years.
- H.M.Jr: What's the best that he can do per room?
- Keyserling: At the bottom of that table are the figures on what he could do with that.
- Opper: Up to the present he pays something, but nothing like full - his figures, I mean, are based on making some contributions.
- Keyserling: That is what he could do even if he made no contribution.

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- H.M.Jr: This says: "Public Housing Under P.W.A. Formula of 45% Capital Grant, Balance 3% 60 years. Paying no taxes, \$4.60." That's on a thousand dollar capital expenditure.
- Keyserling: The average is about two thousand.
- Barton: Where you have actual figures - on Williamsburg, it's \$3.84, and on Techwood it's \$6.33.
- H.M.Jr: Has anybody figured how much more you'd have to grant to get it down to six dollars? I mean would he have to go 50 percent, 55 percent - how much more?
- Keyserling: I have a table showing that, Mr. Secretary.
- H.M.Jr: How much further would Mr. Ickes have to go? Because, in the family here, I understand that when he got ready to turn over - that when he began to talk about turning over Williamsburg to the New York people, they simply refused flatly to pay more than six dollars. Have you heard that?
- Keyserling: Yes, they can't pay more.
- H.M.Jr: Well, what's going to happen to the difference?
- Keyserling: Some way would have to be worked out to enable him to get his rentals down lower.
- H.M.Jr: Do you know now they have crossed that bridge? But I am correct in my information that the New York City crowd has just refused, haven't they, to pay more than six dollars. And are our figures of \$3.84 - they about right?
- Lindau: They are close to the figures we have heard before. They are our own estimate.
- H.M.Jr: I mean how much more than 45 percent would he have to go, for instance, to get that \$3.84 down to six dollars.
- Keyserling: I can show that on this table, Mr. Secretary. Here is a table where you have hypothetical locations. This is a small city in the South or West; assume a capital total of \$800 to \$1200. A medium city,

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\$1000 to \$1500; a large city, \$1200 to \$1800; and a very large city, \$1400 to \$2100. These figures are a little lower than the P.W.A. figures. This is your table of operating expenses. Now, here are the rentals that could be obtained with three percent interest and a 45 percent grant. That was the Secretary Ickes set-up.

Now, in a very large city like New York, with a \$2100 cost per room, you would get a rental of \$9.27; with a total cost of \$1400 per room you would get a rental of \$7.76.

Now, here is the Williamsburg project - fell right in between there.

H.M.Jr: Our figures are what?

Barton: \$8.84.

Keyserling: That would mean an income group of not less than \$2000, which is not at all a low income group.

H.M.Jr: But how much more would he have to write off? Keep it at three percent interest.

Keyserling: If it were kept at three percent....

H.M.Jr: How much would it have to be - 50 or 60 percent?

Barton: Be somewhat over 60, I should say.

Keyserling: If the interest were kept at three percent and if he made a capital grant of, say, 90 percent of capital cost, and kept the interest at three percent, he could still not get down to low enough rentals.

H.M.Jr: Well, that isn't according to our figures, is it?

Barton: We figured it under the Wagner Bill; with full amortization, hundred percent capital cost, it would be \$5.96.

H.M.Jr: I see.

Barton: That's on the Williamsburg project. That's practically six.

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- H.M.Jr: Is that figuring taxes or no taxes?
- Barton: No taxes.
- H.M.Jr: And interest at how much?
- Barton: Three percent.
- Lindau: Well, that's the loss you're writing off.
- Barton: That's right, that's the loss. So that you got - it's pretty hard to figure...
- Lindau: If you will pardon me just a minute - we figured that under the plan of the Wagner Bill, if we adopted that plan for Williamsburg, the rent would have to be \$4.98 a room - that is, recovering absolutely nothing - and that the monthly room subsidy would be \$5.94.
- H.M.Jr: I see.
- Lindau: Now, to answer your question about how much he would have to grant in order to get the rent down to six dollars. The only way that that question can be answered is to assume some construction cost, because the range on his projects is so great that an average is misleading. Now, in sixteen of his projects he has computed estimated rent figures for the row house parts, and the rent ranges from six dollars and something - from \$6.91 to \$11.15. The average is at \$8.35. You can see that this \$6.91 one - he wouldn't have to make much more of a grant than he is already making, whereas with the \$11.15 one he'd probably have to make a hundred percent grant.
- H.M.Jr: Well, I just want to leave that a minute. Let's just take the Wagner Bill the way it is and let's say, for argument's sake - I want to figure this thing - everything a maximum; that is, let's say that the first year they do put out 200 million, and the next year it would be 250, and the third year 250, and the fourth year 300. Well, let's say that it would be possible to do that and, to make the matter easy, that it all goes into this one type of housing. No demonstrating. Let's say it all goes into the one type, and all of it to be turned over to local housing authorities. I mean

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let's just, to make my problem a little bit easier - I mean we're not going to spend any 25 million dollars for demonstration purposes.

On that basis, if it were possible to spend a billion dollars for housing in four years, that would mean one - let me have your pad a minute. Now let me just figure this thing. These would be bonds sold - well, we'll say 1937, 200 million; 1938, 250; 1939, 250; 1940, 300. Does that check with your bill?

Keyserling: I have a table that sets it all out. It might be helpful to you.

H.M.Jr: 1940, 300 million?

Keyserling: Yes.

H.M.Jr: That makes a billion. All right.

Keyserling: That (table) sets out a billion dollar program in four years.

H.M.Jr: Oh, grand, that's just what I wanted. Now, fiscal year '38-'39.... You take it.

Keyserling: These are the family dwelling units at \$4000 per unit.

H.M.Jr: Is this fifty thousand families?

Keyserling: Fifty thousand families.

H.M.Jr: I see.

Keyserling: And that would be the cost - \$4000 a unit. Now, these are tables on the annual contributions each year, on three different assumptions: $3\frac{1}{2}$ percent, 3 percent, and $2\frac{1}{2}$.

McR: Your first column is what you are talking about.

H.M.Jr: $2\frac{1}{2}$.

Keyserling: Plus one.

Then your annual contributions over the four year period: none the first year, 7 million the second, $15\frac{1}{2}$, and $24\frac{1}{2}$, coming to a total of 47 million dollars. In subsequent years, to carry along that program,

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your contributions would be 35 million dollars a year, which is just $3\frac{1}{2}$ percent of a billion dollars.

H.M.Jr: Oh, I see.

Keyserling: That would be your annual contribution.

McR: In 56 years, at 35 million a year - first four years would aggregate 52 million...

H.M.Jr: Wait a minute, the first four years is 47 million.

Keyserling: That is with your maximum contribution, $3\frac{1}{2}$ percent.

H.M.Jr: Then 56 years, to run at 35 million dollars a year. Has anybody multiplied that - 35 times how many years?

McR: 56 years. - - That would be two billion, 60 million.

H.M.Jr: How much?

McR: Two billion, 60 million.

H.M.Jr: Now wait a second - two billion and 60 million. Now, that's the contribution. But how about retiring the billion dollars worth of bonds?

McR: That would take them all out.

H.M.Jr: Oh, that plan....

Lindau: Take them all out and pay the interest too.

Gaston: One percent for sixty years will retire your hundred percent of the principal.

H.M.Jr: I see.

McR: That would be your total cost.

H.M.Jr: Well, this program is really on a $3\frac{1}{2}$ percent....

Opper: That is making a couple of assumptions - that they would pay out; but the program, as I understand it from Mr. Keyserling, is designed to do that.

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- H.M.Jr: Well, let me put it another way. Again I'm figuring the maximum. We borrow a billion dollars. Then we've got to go to Congress for another billion. Got to ask Congress for two billion dollars to retire a billion. I mean the Federal Treasury would be out two billion dollars.
- Opper: Over sixty years.
- H.M.Jr: Over sixty years. Is that right?
- Keyserling: Yes.
- Gaston: What it amounts to is that we borrow or somebody else borrows a billion dollars and we endorse that note, and we meet the full carrying charges on that year by year; so it really amounts to a grant of the entire construction cost.
- H.M.Jr: Yes. Well, we've come to that conclusion. But if you raised a billion dollars and didn't attempt any of this interest or anything else like that, through direct appropriation, through taxes - you're only going to build a billion dollars worth of houses and you've got to raise two billion dollars to retire that one billion. So that if you raise it through your general tax levy, you'd only have to raise a billion dollars; this way you've got to raise two billion.
- McR: If you raised the billion now...
- Opper: The balance is interest, because you borrow the money and make an amortization of it over a sixty year period. It would cost you the two - you'd spend as much in interest as your capital.
- H.M.Jr: Well, let me just put it another way. I mean I'm trying to get this thing, and you tell me if anything I have - I make is unfair. Let's say we decide we want to build a billion dollars worth of low cost houses and we raise it through general tax levy, and - all right, at the end of four years we got a billion dollars worth of low cost housing. As I understand it, in order to let these people have this at six dollars, even though you pay no interest - no taxes to the community, in order to do that and keep it the six dollars, as landlord you wouldn't

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collect anything, because the six dollars that you collect has to go to maintenance. Is that a fair statement?

Keyserling: That is approximately what it would be.

H.M.Jr: Well, let me put it again; I want to get this thing. If we spent a billion dollars in four years, and let's say for example we raised it through general tax levy, so we have no interest charges to meet - and then to run these houses for sixty years, the best that we could expect is that the rent we collect will just keep those houses running. What? Is that correct?

Keyserling: That is absolutely correct, Mr. Secretary. The only additional consideration is whether in some cases you might not have to add something to that to bring your rentals down low enough.

McR: In some cases you could collect a little more.

Keyserling: Yes, in some cases you could collect a little more. That statement is predicated on an average, going up and down.

H.M.Jr: You mean to say even if you built the houses and gave them to the community, paid no taxes and paid no interest because you're going to raise the money through general tax levy, that those houses couldn't be run at six dollars?

Keyserling: Yes, they could be run at six dollars easily. The only question I raised was that if you wanted to get your rentals down to \$3.50 or \$4.00, it would create a different problem.

H.M.Jr: Well, let me ask this. What I am trying to do is - I mean for the moment I want to look at it as Secretary of the Treasury, because I've got to raise the money. When you put it - "Well, it just costs ten million dollars a year," it doesn't look so bad, but this way - hasn't any other country done it so that it gets its capital back?

Keyserling: Under the English system, Mr. Secretary, the average contribution per family since 1919 has been about \$100 per family.

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H.M.Jr: Per year?

Keyserling: Per year. Now, \$100 per family per year on a cost of \$4000 - of a \$4000 house, would be about 2½ percent, which would be just equivalent to the 2½ percent average supposed under this bill.

H.M.Jr: Well, personally - I mean if we are going to do this thing I'd much rather, from my standpoint, face the thing that we are going to build so many million dollars worth of houses a year and give them to the community, and figure that it is going to cost so much. I mean it is going to cost the taxpayers so much at the beginning, and - because this bond without a guarantee is worthless. Because as I - I'm not a lawyer, but as I put this thing up to Oppen, nobody can bind Congress for more than one year. You can't bind any future Congresses. And if the Congress didn't vote this subsidy, if they got tired of this - they would have to vote the money, though, to pay...

Oppen: ...to pay the interest.

McR: Retire the bond.

H.M.Jr: Retire the bond.

McR: That's right.

Oppen: Of course, when these things take the form of a contract, which they may, then you may say there is an actual legal claim for the subsidy; just what the strength of that would be is something else again. At any rate, whether Congress could be bound to pay the subsidy - they'd have to pay it.

McR: They'd either pay up or pay some of it through the nose, one or the other.

H.M.Jr: Let me ask these construction engineers here - has everybody explored these construction costs?

Barton: Yes, that's been pretty well analyzed. This figure we show here of \$1200 a room is a very good average figure.

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H.M.Jr: Where's that, Techwood?

McR: That's their own analysis.

Lindau: It's right at the top.

McR: Here, take the original one.

Barton: We've got it down to \$1200 against \$2200 for Williamsburg.

H.M.Jr: My god, they paid enough for that land there, didn't they?

Keyserling: Terrific.

H.M.Jr: What?

Keyserling: Terrific.

Barton: They paid too much for that type of housing.

Oppen: If you try to do slum clearance and housing at the same time, you get stuck.

H.M.Jr: And the person that says you can't is Nathan Strauss. He's convinced me that you can't do the same thing - you've either got to talk slum clearance or low cost housing. The two things are separate problems. What?

Keyserling: Yes.

H.M.Jr: Well, let's go around the table and see. How would you do it, Clarence?

Oppen: Well, that's a large order.

H.M.Jr: Well, go ahead. You used to be up there, weren't you, with New York City Housing. Weren't you the counsel? You (Keyserling) know that, don't you?

Keyserling: Yes.

H.M.Jr: We're trying to get friends around here for housing. There's no enemies; we're trying to get friends.

Oppen: Well, I think the suggestion that if this is going to be an outright contribution it would cost less

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money and be a more direct approach if it could be made a contribution in cash at the beginning - one difficulty, Mr. Secretary....

H.M.Jr: Just a second before you start; I need a drink, after seeing those figures.

Opper: And he's about to listen to me.

H.M.Jr: Helen, if you will bring in something now.

I didn't know it was as bad as that.

Opper: Well, I'm willing to take it for the benefit of the rest of you.

Mr. Keyserling suggested one problem there, and that is if you make an annual contribution, you will always have something that you can withdraw in case the operation by the local authority doesn't conform to the Federal standard; you'll just cut off your annual grant.

H.M.Jr: May I answer that? McReynolds gave me an idea last week. He thought that thing could be overcome by leasing this thing to the authority and that way you keep a string. McReynolds said, "You make a lease. The United States Housing Authority leases this building to the New York State Authority for a dollar a year."

Opper: For a dollar a year.

H.M.Jr: So you can overcome that. I don't know where Mac got that. So in that way you can keep the strings.

Opper: There are other ways too. But I wanted to make sure you had in mind Mr. Keyserling's point about that annual subsidy. The second thing, of course, is the question whether as much as two hundred million dollars a year for four years - an average of 250 million dollars for four years could possibly be raised by current taxes and set aside for that particular purpose. And one objection there, I take it, is that the opposition to a housing program of this size would bear directly on that question.

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Now, the answer to that, of course, is that if that is the true approach, if the taxpayers are going to bear it over a sixty year period, it might well be they should be advised of all the results at the very beginning. But I am inclined to agree with you that the result is just about right, that the subsidy has to take the form of a complete grant of the cost of the project.

- H.M.Jr: Well, as you go into this thing, do you think the Government should do the building or lend the money to local authorities and let them do it?
- Oppen: The result of what little chance I've had to discuss the thing with people who are supposed to be authorities on the housing question indicates - well, the concensus on that point seems to be that the local authorities have a better ability to gauge the needs of the community and the type of development required. That is the concensus of opinion.
- Barton: I think it is generally understood that we've got to, instead of the subsidy, cover the whole item.
- H.M.Jr: Pardon me?
- Barton: We'll have to consider that the subsidy covers the whole.
- H.M.Jr: The whole business?
- Barton: Yes. Hundred percent subsidy.
- H.M.Jr: Well, which would you rather do? Rather have us give them a hundred percent subsidy and write it off right at the beginning?
- Barton: That would be cheaper. There's one thing I'd like to point out. I don't think you can give them more than a hundred million dollars worth of housing in a year.
- H.M.Jr: Well, Mr. Ickes - it's taken him how many years to build 130 million?
- Lindau: Well, he started this program about three years ago.
- H.M.Jr: And there is only one finished.

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- Dunning: About three and a half years ago.
- Barton: I think that's a top figure too.
- H.M.Jr: Why, Mr. Barton?
- Barton: There are not many skilled laborers available, not much machinery available.
- H.M.Jr: Well now, I don't want to - do you (Dunning) think that's right?
- Dunning: Yes. You might come up to a higher level the second year. The first year, I don't think you could possibly build more.
- H.M.Jr: Well, let me just question a minute. Let's take structural steel, for instance; can you get structural steel?
- Barton: Yes, I don't think there is any trouble at the present time.
- H.M.Jr: There isn't. I see. Well, how about mechanics?
- Barton: Well, there's a scarcity.
- H.M.Jr: All over?
- Barton: Very generally.
- Dunning: I wouldn't say it is general, but any considerable increase in building - it will be quite acute for skilled labor.
- H.M.Jr: What? Nine million unemployed and there's going to be a shortage?
- Dunning: There's nothing in the warehouses any more - shortage of material.
- H.M.Jr: Well, if - I'm trying to get this. Once I get it, it sticks. By taking it by general tax levy, it just costs half as much, doesn't it?
- Gaston: Well, not as long as you have public debt outstanding - not as long as you have public debt outstanding anyway,

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because what you take from taxes to pay this just reduces the amount by which you can reduce your outstanding public debt; so long as you have any public debt outstanding, you are paying that amount of interest.

- Opper: But you are figuring it over a sixty year period.
- Gaston: It may be that by the end of sixty years you may not have any debt outstanding. But there are provisions in here by which the Treasury takes the obligations of the housing authorities and sells its own obligations, which it could redeem, so that you could cut off your subsidy when the construction cost had been amortized.
- H.M.Jr: Well, Herbert, that thing - it cuts both ways, I mean. Let's say we raise another hundred million dollars worth of taxes for this purpose; we can't say that that means we wouldn't retire another hundred million dollars worth of debt.
- Gaston: If you raised it especially for this purpose?
- H.M.Jr: Yes.
- Gaston: Well, I doubt the ability to levy taxes and raise them for this particular purpose.
- H.M.Jr: Well, I've had an idea which I've never told. I wouldn't want to quote it or repeat it. But the President has told us so often that he's got this idea of five hundred million dollars a year for public works. I just wondered what the debt duties amount to and whether those could be earmarked for public works.
- Gaston: Not new debt duties; not added debt duties, but the existing debt duties.
- H.M.Jr: The existing debt duties. I mean does anyone know what we estimate a year for taxes from debt duties.
- Lindau: I can't recall the figure because the estimate was changed.
- H.M.Jr: Got any idea?

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- Lindau: I was going to guess about 125 million.
- Gaston: Budget would show it, wouldn't it?
- H.M.Jr: What would you (Dunning) think - by your experience, what would you think that they could build in the way of low cost housing per year? I mean getting started. What would be the least? I mean in dollars.
- Dunning: Well, we could possibly handle, I should think, a hundred, hundred fifty million the first year.
- H.M.Jr: If Procurement had to do it?
- Barton: I think if you got out 25 the first year you'd be doing very well, because it takes a great deal of planning; and your site situation is always going to be a difficult problem - very indefinite as to when you can get started.
- Dunning: we could certainly turn out a much larger program in housing in dollar value than we can in these small individual public buildings, because there would be a great deal more application.
- H.M.Jr: What do we turn out a year?
- Barton: Well, somewhere around 60 million a year.
- Dunning: I thought last year on the programs we got up a little higher.
- Barton: It runs, I'd say, about 60 million.
- H.M.Jr: You (Lindau) sat in all last year on this thing. Have you got anything to throw in?
- Lindau: Me?
- H.M.Jr: Yes.
- Lindau: Well, I think that Mr. Opper's statement about the general concensus being that the local authorities could better handle these projects is true. But I'm inclined to agree that an original capital contribution is more desirable than spreading this

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thing over a number of years. For one thing, you know right off the bat what you are paying, and under this plan and spreading it over 60 years I think it is very problematical that you are going to be able to collect any of the rent anything like you expect in the last of those years. Sixty years is a long time and buildings will be outmoded and obsolete, even though physically they may be in fair condition, so that the actual results over a sixty year period are likely to be far worse than we would anticipate in the beginning, especially if you consider that you start off with maintenance costs which are optimistically figured and which I think would not be the average over a full sixty years' period; and if you boosted those maintenance costs in order to provide a cushion for your troubles in the last of the years, you'd get the rents up higher than you'd probably want them. The trouble in most of these calculations is we start out with a definite goal and we are willing to shave our figures in order to get to that goal and it is not realistic. I think you have much better control if you put out all the money in the beginning.

H.M.Jr: How do you mean, lend out?

Lindau: I mean that you contract for expenditures for a subsidy spread over sixty years and you are likely to go to much greater extremes in the amount of money which you will put out, because the cost to you is so much smaller put on a sixty year amortization basis than it is if you put the money out all at one time.

McR: You mean the cost in these years?

Lindau: No, I mean it costs - you start out and you say, "We're going to have to spend ten million dollars in subsidy and we're going to increase that subsidy each year by ten million dollars." Well, ten million dollars doesn't sound large. But talk about spending a billion dollars and either having to raise it through tax levies or borrowing it directly, and it is a different story, I think. This shifting from having an authority borrow the money, and then we pay back the service and all, is something which is

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likely to be misleading.

Gaston: I think the main criticism of this bill is that it is misleading. It emphatically is a construction subsidy. The Government is paying the interest and service on this - on its own loan - and I think it would be better to put it frankly on that basis. I don't think there is any question that to make the pants and vest meet you've got to have a Federal subsidy of large dimensions, but this is in essence a capital construction subsidy rather than a maintenance subsidy.

H.M.Jr: Of a hundred percent.

Gaston: Yes, and I think it would be better to recognize - if you are going to do it that way, it would be better to do it frankly. We could have used this device and made it appear that through the whole depression we have had no deficits whatever by a process of inter-corporation loans and meeting the carrying charges. In other words, it seems to me it will be quickly recognized that this is an effort to do something and to make it appear that you are doing something else. Now, I'm all for the objects which this bill sets out, but I don't like the manner in which you're doing it.

Keyserling: I think I can answer most of those questions. I don't think that this is a capital subsidy at all, and I'd like to approach it first from the point of view of the experience of this Government in the last four years with its low rent housing.

All of the subsidies to low rent housing by the Public Works Administration have been based upon the cost of building the project. That has been the first source of its difficulties, because in a housing project, since the rentals must cover both the building cost and the maintenance cost, any subsidy which is based upon the building cost alone, whether it is fixed too high or fixed too low, will not bear a relationship to the rentals that you are trying to maintain. That is why the figures have gone so far askew. They started off with the idea of a 45 percent grant and a three percent interest loan upon the building cost, not

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taking account of the fact that rentals are not determined by building cost but determined by the annual cost of retiring your building loan plus the annual cost of maintaining the project. Their figures went so far wrong that they got rentals of eight or nine dollars a room. Then when an effort was made to remedy that....

H.M.Jr: May I interrupt you a minute? Did Mr. Ickes ever say he'd rent it for less than that?

Keyserling: I don't - I'm not even trying to intimate, Mr. Secretary.....

H.M.Jr: I'm just asking. Did they? Three years ago they were talking of six dollars rental.

Keyserling: That I could not say.

Then a decision was made to make a 45 percent grant and to lend the rest of the money at less than three percent. In the Walsh-Healey bill of last year, the authorization - the George-Healey bill of last year, the authorization was given to loan 45 percent and to fix the interest rates on the balance at whatever rate was deemed desirable. Under that, I understand, the Department of Public Works asked for permission to reduce their interest rate to one percent. I believe they got authorization to reduce it to zero, but I understand that the Department decided that they would pull it down to about one percent. The figures show that with a 45 percent grant and a loan for the balance at one percent or at zero, you get rentals of about seven dollars a room, which is still far above the low income groups.

So that all the figures, whether they are the Treasury figures, Mr. Secretary, or the Department of the Interior figures, or the studies of other people, show that in effect you have to have what amounts to a hundred percent capital cost subsidy to get down to low rentals.

H.M.Jr: Yes, well we....

Keyserling: Yes, everyone is in agreement.

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H.M.Jr: Yes, but I've never heard anybody say so publicly. I mean I've never heard anybody admit that publicly.

Keyserling: Now to go on with the theory of this bill and the reason for the annual contributions. It is based on the idea that figuring your contributions to low rent housing on the capital cost is fundamentally wrong, because what one is trying to do is reduce the rentals and not reduce the cost to the authority of building the project; and that the sound way of determining your subsidy - whether you want it to be a high subsidy or low subsidy, that is a different matter - is to figure out what the annual cost of the project would be and what would have to be covered by rentals if there were no subsidy, and then determine how much is necessary to get your rentals down to your low income group.

If you do that, you may find that you have to give such a big subsidy that you don't want to have to go into it at all, or you may find that you can manage it. But at least you will actually know what you are doing.

H.M.Jr: But when it all comes around, it comes back to this: that in order to reach these levels that this income group can pay, you've got to build a house and give the whole house to some authority to run. That's what it amounts to.

Keyserling: It comes about to that. That's what it amounts to.

H.M.Jr: What?

Keyserling: That's what it amounts to.

H.M.Jr: But I mean I've never heard anybody say so publicly. And that is on a basis if you pay no taxes of any kind.

McR: Another factor that you are overlooking here is that as far as this bill is concerned there is authority there to spread by private capital coming in the cost to something still higher, as shown by those tables, so that...

H.M.Jr: I don't follow you, Mac.

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McR: Well, if private capital comes in...

H.M.Jr: Yes

McR:your annual subsidy goes up.

H.M.Jr: Why?

McR: Because your subsidy is based on the cost of the project and not on the amount the Government loans. So you will find in those same tables....

H.M.Jr: It might go up to a billion and a half?

McR: It would go up to a billion and a half and your subsidy would go up.

Gaston: But they propose to put an over-all limit on what you can grant in any one year - what you can contract to grant.

Keyserling: Ten million a year.

Gaston: Ten million a year, yes.

H.M.Jr: Well listen, two billion dollars is enough, without going into private capital, because the only reason I think this private capital would go in on this basis is they'd be getting a totally tax exempt security, and I'd be opposed to that.

Gaston: And it would cost you more money.

H.M.Jr: Oh sure. I mean the fellow would be able - all the rich money people would put their money into this thing in order to get a totally tax exempt security.

Opper: The bill is set up that way.

H.M.Jr: I mean you'd get Rockefeller and all those fellows putting their money in in order to get a totally tax exempt security.

Lindau: Another thing - that is another subsidy.

H.M.Jr: Of course it is.

Gaston: It would practically be a Government-guaranteed security in effect.

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Opper: Here are the figures for the private capital. Take half of it from private sources and it raises the room rent.

Keyserling: Mr. Secretary, the only point I was trying to make was that this 3½ percent subsidy per year, assuming that it does amount to a complete capital subsidy of the cost of the project, is not more than is admittedly necessary to get down to the low rent groups, so that the size of the subsidy as set forth in this bill is not too high.

The next question is whether the annual contributions are a better or a worse way of paying it than a capital grant. I was just trying to make the preliminary point that this group is in agreement that the subsidy is not too high; that is, if you say that your 3½ percent annual contributions amounts to an annual contribution sufficient to retire the whole loan with interest, and if you say that that is what you need to get down to a five or six dollar rental, then that is the justification for the size of the subsidy.

H.M.Jr: Well, let's just forget money for a minute. Let's take the social aspects of this thing. Now, what is talked about that? Where do people live today who have incomes of \$1200?

Keyserling: A lot of them live in sub-standard houses.

Gaston: That means old, rickety, rotten buildings, without plumbing, and insanitary, congested, etc.

Opper: The kind of buildings they are trying to shut up in New York and finding so much trouble with, because they can't find any place to move the people.

Gaston: The point was made that they have full occupancy - that is, they only have a two percent vacancy - in Cleveland now, but if the laws were enforced, the building laws, the sanitary code was enforced in Cleveland, they would have a tremendous building shortage; in other words, that their low income group are almost wholly housed in buildings that violate the fire laws or violate sanitary laws or violate safety laws or something else. And I think

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that is pretty characteristic.

Dunning: True in New York.

Gaston: Yes.

H.M.Jr: It is unfortunate that here we are launched on a 130 odd - how much is it that Mr. Ickes has?

Lindau: 130 odd. He has 136.86. He loaned 10.4 millions, but he's contracted to loan 10.960 million.

H.M.Jr: Well, let's just talk about the Federal - 53 Federal projects. And I say it is unfortunate that we haven't - only one is finished and you haven't got any experience. I mean whatever mistakes that the Federal Government has made, we haven't had time to learn what those mistakes are. I mean because only one is finished.

Opper: You know a lot of mistakes already.

H.M.Jr: What?

Opper: You know a lot of the mistakes now.

H.M.Jr: Yes, but they won't show up until they are finished and rented. Does anybody, for instance, know whether Techwood is rented?

Lindau: It is rented, I think, 94 percent.

Dunning: 92 percent.

H.M.Jr: What do they really get for the rentals?

Keyserling: \$6.75.

H.M.Jr: Didn't they have a project down there for colored people too?

Dunning: University project.

Keyserling: They are figuring a rental of \$6.13 on that.

Barton: That's not low cost housing; for that type of project it isn't.

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- McR: No, that's high for that type of project.
- Keyserling: It's very high, because that means an annual income of \$1300 or \$1400 a year, which won't get into your lower half of your population, much less the lower third or fourth.
- Gaston: Mr. Keyserling makes a point about the value of this annual grant thing that I think is quite valid as against the plan of simply giving the money for the buildings - that it can be differently distributed; that is, that it can be more here and less there, according as the need is to equalize rents. While the effect on the Federal budget would be just the same as if you were giving the money outright, yet on the particular project the effect would be different, because on one project where their costs are low you wouldn't give so much, and on another one where their costs are high you'd give more. So you could spread the money to better advantage through this annual grant system.
- H.M.Jr: Through, Herbert? Go ahead, Oppen.
- Oppen: I was going to ask why you can't do the same thing with your capital grants, because it's a contract, Herbert.
- Gaston: That's quite true, except that your maximum limit on your capital grant is the construction cost of the project.
- H.M.Jr: It all washes out, though, in sixty years.
- Gaston: In some cases this grant would amount to more than the construction cost of the project; in other cases you'd be giving less.
- H.M.Jr: Of course, I think the thing you've got to recognize if you go into this is that people have to live in it and they can't expect to live within ten minutes of work. They've got to be willing to ride on the subway or street car for 45 minutes or an hour. I mean if you've got to go in - you've got to go in non-congested areas to get your best dollar per square foot.

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- Gaston: What you're really bucking here is the proposition of high land values in cities - the so-called unearned increment; that's the thing you're up against.
- H.M.Jr: This thing may revolve - you may have to recognize that if these people are going to live and work - I mean you may have to move them to places where factory conditions and housing conditions can be created so that people can live decently. I mean maybe they'll have to go to the South for climatic conditions and everything else there which is more favorable. I mean after all, that's what's happened with all the textiles, hasn't it? I mean they're moving south where people can get better working conditions and better living conditions and save some of their income. It is pretty hard to produce this sort of thing in New York City.
- Gaston: I suppose this bill is open enough so that you could build housing in industrial suburbs.
- Keyserling: Oh certainly, in large industrial suburbs - build anywhere.
- Gaston: Yes.
- H.M.Jr: Mac, how much are we spending on public roads? Do you know? Was it 400 million a year?
- McR: I couldn't tell you. I should say it was at least that much.
- Opper: 400 million dollars by the Federal Government?
- McR: I think so.
- Keyserling: This bill, Mr. Secretary, only calls for an expenditure of 35 million dollars a year at most on the basis of the present program set forth.
- H.M.Jr: You can't sell it to me on that basis, Mr. Keyserling. No, you've got to recognize that this is a two billion dollar expenditure over sixty years, and that's what it amounts to. When you do it that way, how can you divide sixty into two billion and....

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- Gaston: There is an assumption that you cut your program off at the end of four years.
- H.M.Jr: I'd be absolutely opposed to selling a guaranteed Federal bond on this thing. I mean I think it would just shoot our credit to....
- Gaston: There would be no point in it. There's a provision in the bill whereby you could take the obligations of the authority and just sell a straight Federal bond.
- H.M.Jr: Just increase our Federal debt. But to sell a guaranteed bond on this thing - it would just shoot the Government credit to hell.
- Gaston: There wouldn't be any sense to that. But the bill provides that you can take the authority's obligations and then sell a straight Federal bond for the money.
- H.M.Jr: You take a guaranteed bond of the land banks; they loan sixty percent on the value of the land, and you've got your land. Fahey's crowd, was it - how much did they loan up to?
- Opper: H.O.L.C., 75 percent.
- Dunning: 80 percent.
- Lindau: He's talking about F.H.A. I don't know what the limitation was.
- Opper: I think it was 75. They haven't been lending now for about six months.
- Barton: A billion dollars would take care of about two hundred thousand families.
- Keyserling: About 250,000 at four thousand dollars per family.
- Barton: Four thousand per family is probably a little low. But that's not taking care of the entire problem by any means. That's a very small part of it.
- H.M.Jr: Has anybody estimated how many families there are?
- Opper: Have you (Keyserling) got any figures on that?

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- Keyserling: You mean determined by your income groups? There are about seven million families with incomes of less than a thousand a year.
- Opper: But that's not - that's not necessarily urban families.
- Keyserling: No, that includes urban and rural. Probably three-fourths of them are urban.
- Gaston: Three-fourths are urban, you think?
- Keyserling: I should think so.
- H.M.Jr: This comes back to the President's original idea, which Tugwell muffed so, and that is this thing of satellite cities - going out fifteen, twenty miles, buying farm land, then building these things out there.
- Opper: That was the original conception of the housing development in 1929.
- Gaston: Of course, you could build satellite cities under this bill. It would depend on the judgment of the housing authority.
- Opper: Well, you couldn't do anything about your industry, Herbert. Part of that job is to bring your industries into the right places.
- Gaston: Oh, your housing authority has got plenty of power under the bill to deal with industry.
- H.M.Jr: Of course, the point that I make is this: I mean where I think that we have a perfectly sound basis - I don't know whether it's 200 million or 400 million a year for roads; well, we've gone drunk over building these roads. Now we've done this thing for three or four years. We've spent all this money on dams, spent all this money on reclamation. Let's ease up on these things. And rivers and harbors, and deepening the Mississippi and all that stuff. It is just because those people have more votes on the Hill. And I don't see why some of that stuff can't be stopped and put into this thing.

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After all, when you figure building a Bonnerville Dam or when you figure building a reclamation thing, or if you deepen the Hudson to Albany, you don't expect to get that back. You don't charge anybody when you put up all these levies on the Mississippi that the Army engineers build. You don't even figure you're going to get that back.

Opper: Going to cost us more money when they get those claims in for that Atchafalaya Basin.

H.M.Jr: But you take your four billion eight. The best estimates I can make on that is that we'll get five percent of that. Do you know that? Do you know that it is as low as that? If we get five percent back, it's lucky, although the President intimated at one time we'd get half of that back. If we do that, I don't see why - but stop some of the other stuff.

Gaston: You think there are certain social values in what you can do.

H.M.Jr: I'm sold on it that way. What's our expenditures this year - seven or eight billion, was it?

Gaston: Around eight billion.

H.M.Jr: Well, out of that certainly we can start something that costs a hundred million dollars and put that directly into this thing. I mean out of all these expenditures - and these Army engineers; my heavens, all the money that they've had now, and all that stuff. Certainly out of eight billion dollars we ought to be able to find a hundred million dollars for real low cost housing.

Haven't you (McReynolds) got any of Bartelt's books that shows the statutory allotments for relief appropriations for roads?

McR: Those monthly books that he quarterly gives you a bound copy of.

H.M.Jr: If we could say to the President on this, "Look, you say you've got to pool five hundred million

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dollars worth of this for public works. Let's just put that pool over - let's slow up on this other. If you want to do low cost housing, take it out of here."

- Oppen: The thing on the road question is that I think it is supposed to be the type of enterprise that uses the most labor per dollar spent, and I don't think that is true of housing. It doesn't come in nearly as high for labor cost.
- Dunning: Although a larger number of skilled labor and medium-skilled. Roads will go into the common labor.
- H.M.Jr: But the only way - the more I think of it, the only way you can think of this thing is of the social needs, and the fact that this group of Americans have been overlooked the last four years. Now I think it is time we do something. I mean that's why we are - I'm interested. I mean the only way you can sell this is not on a financial basis. You can't sell it to me on that. You've got to sell it to me on the basis of social needs. If it takes a hundred percent, all right. But as to the social needs and the fact we've spent all this money - my god, we've given Tugwell 70 million dollars, and the best estimate of Procurement - we figured 50 million of it was "goodbye." I mean out of 70 million dollars to Tugwell, 50 million of it is just gone.
- Keyserling: Well, I just didn't think it was necessary to present the social side of it here.
- H.M.Jr: I mean Tugwell's average cost, \$11,000 per family in the country. I mean the more I think of it, I think the only way you can sell this thing is by social needs. And a hundred percent grant - build the thing, lease it to the community a dollar a year, and let's face the thing and do it. On a straight social basis - that's the way I'd present it. I mean that would be my approach. Now, you can't fight with me over that, can you?
- Keyserling: I certainly think that it's got to be looked at from the social viewpoint.

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- H.M.Jr: I mean if I'm willing as the Secretary of the Treasury to take that viewpoint, you certainly can't say there is any difference between Senator Wagner and myself - if I am willing to say I recognize that need and think it is more important than a lot of other things we are doing. I don't see how else you can sell this, do you?
- Dunning: I think that eliminates one of the hazards of this scheme, and that is the sixty year amortization.
- H.M.Jr: But this bill from the financing standpoint - I couldn't take it that way. I can fight for it on the social basis.
- Mac, first thing in the morning get hold of Danny Bell, will you, and get this thing and let's see what the various public works things are that are lined up. Dan's got that all at his fingertips. Will you?
- McR: All right, I will. Of course we've got stuff in my office that shows it, but I can't remember it.
- H.M.Jr: But let's take a look at it first thing in the morning and let's just see. I don't think we can do any more tonight, and I know I'm - now I've got this. I'm very much obliged to you. I hope we haven't played you (Keyserling) out.
- McR: I've been giving him a pretty tough ride. He's been going hard since 2:30.

75TH CONGRESS
1ST SESSION

S. 1685

IN THE SENATE OF THE UNITED STATES

• FEBRUARY 24, 1937

Mr. WAGNER introduced the following bill; which was read twice and referred to the Committee on Education and Labor

A BILL

To provide financial assistance to the States and political subdivisions thereof for the elimination of unsafe and insanitary housing conditions, for the provision of decent, safe, and sanitary dwellings for families of low income, and for the reduction of unemployment and the stimulation of business activity, to create a United States Housing Authority, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 FINDINGS AND POLICY

4 SECTION 1. There exist in urban and rural communi-
5 ties throughout the United States slums, blighted areas, or
6 unsafe, insanitary, or overcrowded dwellings, or a combina-
7 tion of these conditions, accompanied and aggravated by an

1 acute shortage of decent, safe, and sanitary dwellings within
2 the financial reach of families of low income.

3 These conditions are inimical to the general welfare of
4 the Nation by (a) encouraging the spread of disease and
5 lowering the level of health, morale, and vitality of large
6 portions of the American people; (b) increasing the hazards
7 of fires, accidents, and natural calamities; (c) subjecting the
8 moral standards of the young to bad influences; (d) increas-
9 ing the violation of the criminal laws of the United States
10 and of the several States; (e) impairing industrial and agri-
11 cultural productive efficiency; (f) lowering the standards of
12 living of large portions of the American people; (g) neces-
13 sitating a vast and extraordinary expenditure of public funds,
14 Federal, State, and local, for crime prevention, punishment
15 and correction, fire prevention, public-health service, and
16 relief.

17 The failure to remedy the acute dwelling shortage has
18 also produced stagnation of business activity in the con-
19 struction, durable goods, and allied industries, thus impeding
20 business activity throughout the Nation and resulting in
21 widespread, prolonged, and recurring unemployment with its
22 injurious effects upon the general welfare of the Nation.

23 Private industry alone has been and now is unable to
24 overcome the obstacles in the way of relieving the shortage
25 of decent, safe, and sanitary dwellings for families of low

1 income, or to prevent the widespread, prolonged, and recur-
2 ring unemployment resulting from the persistence of such
3 obstacles, and the several States and their political subdivi-
4 sions have been and now are unable adequately to aid in
5 remedying this condition without financial assistance. The
6 legislatures of many of the States have expressly declared the
7 need for assistance along the lines set forth in this Act in
8 order to remedy the aforesaid conditions.

9 It is hereby declared to be the policy of the United
10 States to promote the general welfare of the Nation by em-
11 ploying its funds and credit, as provided in this Act, to assist
12 the several States and their political subdivisions to alleviate
13 present and recurring unemployment and to remedy the
14 unsafe and insanitary housing conditions and the acute short-
15 age of decent, safe, and sanitary dwellings for families of low
16 income that are injurious to the health, safety, and morals
17 of the citizens of the Nation.

18 DEFINITIONS

19 SEC. 2. When used in this Act—

20 (1) The term "low rent housing" means decent, safe,
21 and sanitary dwellings within the financial reach of families
22 of low income, and developed and administered to promote
23 serviceability, efficiency, economy, and stability; and em-
24 braces all necessary or desirable appurtenances thereto, in-
25 cluding administrative, educational, recreational, commercial,

1 and other lands, buildings, and facilities. The dwellings in
 2 low-rent housing as defined in this Act shall be available
 3 solely for families whose net income at the time of admis-
 4 sion does not exceed five times the rental (including the
 5 value or cost to them of heat, light, water, and cooking fuel)
 6 of the dwellings to be furnished such families, except that in
 7 the case of families with three or more minor dependents,
 8 such ratio shall not exceed six to one.

9 (2) The term "families of low income" means families
 10 who cannot afford to pay enough to cause private enter-
 11 prise in their locality or metropolitan area to build an ade-
 12 quate supply of decent, safe, and sanitary dwellings for
 13 their use.

14 (3) The term "slum" means any area where dwellings
 15 predominate which, by reason of dilapidation, overcrowding,
 16 faulty arrangement or design, lack of ventilation, light or
 17 sanitation facilities, or any combination of these factors, are
 18 detrimental to safety, health, or morals.

19 (4) The term "slum clearance" means the demolition
 20 and removal of buildings from any slum area, and may
 21 embrace the adaptation of such area to public purposes,
 22 including parks or other recreational or community facilities.

✓ 23 (5) The term "development" means any or all under-
 24 takings necessary for planning, financing (including payment
 25 of carrying charges), land acquisition, demolition, con-

1 struction, and equipment, in connection with a low-rent-
 2 housing or slum-clearance project, but not beyond the point
 3 of physical completion. Construction activity in connection
 4 with a low-rent-housing project may be confined to the re-
 5 construction, remodeling, or repair of existing buildings.
 6 The development of a low-rent-housing project may include
 7 slum clearance. The development of a slum-clearance proj-
 8 ect may be confined to demolition and removal.

9 (6) The term "administration" means any or all under-
 10 takings necessary for management, operation, maintenance,
 11 and financing, in connection with a low-rent-housing or
 12 slum-clearance project, subsequent to physical completion.
 13 (7) The term "demonstration project" means any
 14 project owned or administered by the Authority, whether
 15 or not developed pursuant to section 11.

16 (8) The term "acquisition cost" means the acquisition
 17 cost to the Authority or to a housing agency, as the case
 18 may be.

19 (9) The term "going Federal rate of interest" means,
 20 at any time, the annual rate of interest specified in the then
 21 most recently issued bonds of the Federal Government having
 22 a term of ten years or more.

23 (10) The term "public housing agency" means any
 24 State, county, municipality, or other governmental entity
 25 or public body (excluding the Authority), which is author-

1 ized to engage in the development or administration of low
2 rent housing or slum clearance.

3 (11) The term "consumers' housing society" means
4 any association, cooperative, or corporate body organized
5 solely to promote and administer low-rent housing, whose
6 members are persons of low income in need of such housing,
7 whose officers and directors are the freely chosen representa-
8 tives of such members, which is operated without possibil-
9 ity of direct or indirect financial profit, and which submits
10 its records to the inspection of the Authority to the extent
11 necessary to carry out the provisions of this Act.

12 (12) The term "limited-profit housing agency" means
13 any association, cooperative, limited-dividend corporation,
14 or other corporate body organized to develop or administer
15 low-rent-housing projects, whose dividend rates, if any, capi-
16 tal structure, interest payments, and rental charges are
17 regulated or limited by law or subject to the supervision
18 and control of the Authority and which submits its records
19 to the inspection of the Authority to the extent necessary
20 to carry out the provisions of this Act.

21 (13) The term "housing agency" means any public
22 housing agency, consumers' housing society, or limited-profit
23 housing agency.

24 (14) The term "State" includes the States of the
25 Union, the District of Columbia and the Territories, de-
26 pendencies and possessions of the United States.

1 (15) The term "Authority" means the United States
2 Housing Authority created by section 3 of this Act.

3 UNITED STATES HOUSING AUTHORITY

✓ 4 SEC. 3. (a) There is hereby created a body corporate
5 of perpetual duration to be known as the United States
6 Housing Authority, which shall be an agency and instru-
7 mentality of the United States.

8 (b) The management of the Authority shall be vested
9 in a board of directors (hereinafter referred to as the board)
10 composed of three members appointed by the President, by
11 and with the advice and consent of the Senate, and removable
12 by the President upon notice and hearing for neglect of duty
13 or malfeasance in office, but for no other cause. One of the
14 three original members shall serve for a term of one year,
15 one for a term of three years, and one for a term of five years,
16 but their successors shall be appointed for terms of five years
17 each, except that any individual chosen to fill a vacancy
18 shall be appointed only for the unexpired term of the
19 member whom he shall succeed. The President shall design-
20 ate one member to serve as chairman and executive officer
21 of the board, in charge of the routine administration of the
22 Authority.

23 (c) A vacancy in the board shall not impair the right
24 of the remaining members to exercise all the powers of the
25 board, and two members of the board shall at all times
26 constitute a quorum.

1 SEC. 4. (a) Each member of the board shall receive a
 2 salary of \$10,000 a year, shall be eligible for reappointment,
 3 and shall not engage in any other business, vocation, or em-
 4 ployment. No officer or employee of the Authority shall
 5 participate in any manner in the deliberation upon or the
 6 determination of any question affecting his personal interests
 7 or the interests of any corporation, partnership, or association
 8 in which he is directly or indirectly interested.

9 (b) The Authority is authorized, without regard for
 10 the civil-service laws or the Classification Act of 1923, as
 11 amended, to employ such officers, attorneys, and experts
 12 and hire such skilled and unskilled labor as may be necessary
 13 for the proper performance of its duties under this Act, and
 14 subject to such laws to appoint and fix the compensation of
 15 such other employees as may be necessary for such purposes:
 16 *Provided*, That insofar as such other employees are drawn
 17 from any department or agency of the Government where
 18 they have been engaged in work connected with housing or
 19 slum clearance, they shall be included within the civil service
 20 upon certification by the Authority (within ninety days of
 21 their employment) to the Civil Service Commission and upon
 22 passing a noncompetitive examination given by such
 23 Commission.

24 (c) The Authority may accept and utilize such volun-
 25 tary and uncompensated services and with the consent of the

1 agency concerned may utilize such officers, employees, equip-
 2 ment, and information of any agency of the Federal, State,
 3 or local governments as it finds helpful in the performance
 4 of its duties. In connection with the utilization of such
 5 services, the Authority may make reasonable payments for
 6 necessary traveling and other expenses.

✓ 7 (d) The President may at any time in his discretion
 8 transfer to the Authority any right, interest, or title held
 9 by any department or agency of the Federal Government
 10 in any housing or slum clearance projects, including all
 11 assets, contracts, records, libraries, research materials and
 12 other property held in connection with such projects, and
 13 any unexpended balance of funds allocated to such depart-
 14 ment or agency for such projects; and the Authority may
 15 continue any or all activities undertaken in connection with
 16 such projects, subject to the provisions of this Act.

17 SEC. 5. (a) The principal office of the Authority shall
 18 be in the District of Columbia, but it may establish branch
 19 offices or agencies in any State, and it may meet and exercise
 20 any of its powers at any place within the United States.
 21 The Authority may, by one or more of its officers or em-
 22 ployees or by such agents or agencies as it may designate,
 23 conduct hearings or negotiations at any place.

24 (b) The Authority shall sue and be sued in its own
 25 name, and all suits shall be brought in the Federal courts

1 except where the Authority consents specifically to a differ-
 2 ent forum. Attorneys appointed by the Authority may, at
 3 the direction of the Authority, appear for and represent the
 4 Authority in any case in court.

5 (c) The Authority shall have an official seal, which
 6 shall be judicially noticed.

7 (d) The Authority shall be granted the free use of the
 8 mails in the same manner as the executive departments of
 9 the Government.

10 (e) The Authority, including but not limited to its
 11 franchise, capital, reserves, surplus, loans, income, assets,
 12 and property of any kind, shall be exempt from all taxation
 13 now or hereafter imposed by the United States or by any
 14 State, county, municipality, or local taxing authority. Obli-
 15 gations issued by public housing agencies in connection with
 16 low-rent-housing and slum-clearance projects, and the in-
 17 come derived by such agencies from such projects, shall be
 18 exempt from all taxation now or hereafter imposed by the
 19 United States.

20 Sec. 6. (a) The Authority may make such expend-
 21 itures for the acquisition and maintenance of adequate
 22 administrative agencies, offices, vehicles, furnishings, equip-
 23 ment, supplies, and books, for attendance at meetings, for
 24 instruction, for traveling expenses, and for such other

1 facilities and services as it may from time to time find neces-
 2 sary for the proper administration of this Act. The Au-
 3 thority shall determine and prescribe the manner in which
 4 its obligations and expenses shall be incurred, allowed, and
 5 paid, and the manner in which accounts shall be audited.
 6 Vouchers approved by the Authority for expenditures of
 7 its funds shall be final and conclusive upon all officers of
 8 the Government; except that all financial transactions of the
 9 Authority shall be examined by the General Accounting
 10 Office at such times and in such manner as the Comptroller
 11 General of the United States may by regulation prescribe.
 12 Such examination shall be for the sole purpose of making a
 13 report to the Congress and to the Authority of expenditures
 14 in violation of law, together with such recommendations
 15 thereon as the Comptroller General deems advisable.

16 (b) The provisions of section 3709 of the Revised
 17 Statutes (U. S. C., title 41, sec. 5) shall apply to all con-
 18 tracts of the Authority for services and to all of its purchases
 19 of supplies except when the aggregate amount involved is
 20 less than \$300.

21 (c) The use of funds made available for the purposes of
 22 this Act shall be subject to the provisions of section 2 of
 23 title 3 of the Treasury and Post Office Appropriation Act
 24 for the fiscal year 1934 (47 Stat. 1489), and to make

1 such provisions effective every contract or agreement of any
2 kind pursuant to this Act shall contain a provision identical
3 to the one prescribed in section 3 of title 3 of such Act.

4 SEC. 7. (a) The Authority may engage in research,
5 studies, surveys, experimentation, and experimental construc-
6 tion, and may publish and disseminate information pertinent
7 to the various aspects of housing.

8 (b) In January of each year the Authority shall make
9 an annual report to Congress of its operations, including
10 loans and grants made or contracted for, low-rent-housing
11 and slum-clearance projects undertaken, and the assets and
12 liabilities of the Authority. Such report shall include oper-
13 ating statements of all projects under the jurisdiction of or
14 receiving the assistance of the Authority, including sum-
15 maries of the incomes of occupants, sizes of families, rentals,
16 and other related information.

17 SEC. 8. (a) The Authority may from time to time make,
18 amend, and rescind such rules, regulations, and definitions as
19 may be necessary to carry out the provisions of this Act.

20 (b) In the exercise of its discretion pursuant to this
21 Act and pursuant to the standards, definitions and considera-
22 tions of policy set forth herein, the findings of the Authority,
23 if reasonably substantiated, shall be conclusive.

1 ASSISTANCE TO LOCAL LOW-RENT-HOUSING AND SLUM-
2 CLEARANCE PROJECTS

3 SEC. 9. (a) The Authority may make grants and loans
4 to public-housing agencies to assist the development, ac-
5 quisition, or administration of low-rent-housing projects by
6 such agencies.

7 (b) The grant for any such project shall be paid in
8 the form of fixed and uniform annual contributions, over a
9 fixed period not exceeding sixty years. The Authority shall
10 embody the provisions for such grant in a contract of grant
11 guaranteeing such fixed and uniform annual contributions
12 over such fixed period. Such annual contributions as are
13 contracted for shall be strictly limited to the amounts and
14 period necessary, in the determination of the Authority, to
15 assure the low rent character of the housing project involved:

16 *Provided*, That the fixed contribution payable annually
17 under any such contract of grant shall not exceed a sum
18 equal to the annual yield at the going Federal rate of
19 interest (at the time such contract of grant is made) plus
20 1 per centum upon the development or acquisition cost
21 of such project.

22 (c) All payments of annual contributions pursuant
23 to this section shall be made out of any funds available to
24 the Authority when such payments are due, except that

1 its capital and its funds obtained through the issuance of
2 obligations pursuant to section 20 (including repayments
3 or other realizations of the principal of loans made out of
4 such capital and funds) shall not be available for the pay-
5 ment of such annual contributions.

✓ 6 (d) In any one fiscal year the Authority shall not enter
7 into contracts of grant which provide for annual contributions
8 aggregating more than \$10,000,000 per year exclusive of
9 any annual contributions payable under contracts of grant
10 made by it in prior fiscal years: *Provided*, That if the con-
11 tracts of grant entered into in any one fiscal year provide
12 for annual contributions aggregating less than the authorized
13 \$10,000,000, the unutilized balance of such authorization
14 may be carried over as an authorization for any subsequent
15 fiscal year. The faith of the United States is solemnly
16 pledged to the payment of all annual contributions con-
17 tracted for pursuant to this section, and there is hereby
18 authorized to be appropriated in each fiscal year, out of any
19 money in the Treasury not otherwise appropriated, the
20 amounts necessary to provide for such payments.

✓ 21 (e) The loans for any low-rent-housing project pur-
22 suant to this section shall bear interest at such rate not less
23 than the going Federal rate at the time the loan is made,
24 be secured in such manner, and be repaid within such
25 period, not exceeding sixty years, as may be deemed advis-

1 able by the Authority. The total of such loans outstanding
2 for any such project shall not exceed the development or
3 acquisition cost of such project, less the total amounts out-
4 standing on loans made by third parties, senior to the loans
5 of the Authority, and secured by such project or payable
6 from the revenues thereof.

✓ 7 SEC. 10. The Authority may make loans to limited-
8 profit housing agencies to assist the development or acquisi-
9 tion of low-rent-housing projects: *Provided*, That not more
10 than \$25,000,000 shall be so loaned in any one fiscal year.
11 Such loans shall bear interest at such rate not less than
12 the going Federal rate at the time the loan is made, be se-
13 cured in such manner, and be repaid within such period,
14 not exceeding sixty years, as may be deemed advisable by
15 the Authority. The total of such loans outstanding for any
16 such project shall not exceed 85 per centum of the develop-
17 ment or acquisition cost of such project, less the total amounts
18 outstanding on loans made by third parties, senior to the
19 loans of the Authority, and secured by such project or pay-
20 able from the revenues thereof.

21 DEMONSTRATION PROJECTS

✓ 22 SEC. 11. (a) The Authority may develop and admin-
23 ister low-rent-housing and slum-clearance demonstration
24 projects in order to demonstrate to localities the benefits
25 to be derived therefrom. No such projects shall be com-

1 menced in any locality without the consent of a governing
2 body having jurisdiction over such locality: *Provided*, That
3 not more than one demonstration project shall be commenced
4 hereafter in any one locality and that the total estimated
5 development cost of all such projects commenced in any
6 one fiscal year shall not exceed \$25,000,000.

✓ 7 (b) As soon as practicable the Authority shall sell its
8 demonstration projects or divest itself of their management
9 through leases. - *Question of providing for loss*

10 (c) The Authority may sell a low-rent-housing demon-
11 stration project only to a public housing agency. Any such
12 sale shall be for a consideration, in whatever form may be
13 satisfactory to the Authority, equal at least to the amount
14 which the Authority determines to be the fair value of the
15 project for housing purposes, less such allowance for depre-
16 ciation as the Authority shall fix. Such project shall then
17 become eligible for a grant and loans pursuant to section 9.
18 Any obligation of the purchaser accepted by the Authority
19 as part of the consideration for the sale of such project shall
20 be deemed a loan pursuant to section 9.

✓ 21 (d) The Authority may lease any low-rent-housing
22 demonstration project in whole or in part to a public housing
23 agency or a consumers' housing society: *Provided*, That
24 the tenant eligibility for a project leased to a consumers
25 housing society shall not be limited to the members of such

1 society. The lessee of any project, pursuant to this para-
2 graph, shall assume and pay all management, operation,
3 and maintenance costs, together with payments, if any, in
4 lieu of taxes, and shall pay to the Authority such annual
5 sums as the Authority shall determine are consistent with
6 maintaining the low-rent character of such project. The
7 provisions of section 321 of the Act of June 30, 1932
8 (U. S. C., Supp. VIII, title 40, sec. 303 (b)), shall not
9 apply to any lease pursuant to this Act. *Fix about provision*
for losses

10 (e) In the administration of any low-rent-housing
11 demonstration project pending sale or lease, the Authority
12 shall fix the rentals at the amounts necessary to pay all man-
13 agement, operation, and maintenance costs, together with
14 payments, if any, in lieu of taxes, plus such additional
15 amounts as the Authority shall determine are consistent with
16 maintaining the low-rent character of such project.

17 GENERAL POWERS OF THE AUTHORITY

18 SEC. 12. (a) In connection with the development or
19 administration of any low-rent-housing or slum-clearance
20 project, the Authority may acquire real or personal property
21 or any interest therein by purchase, eminent domain, gift,
22 devise, lease, or otherwise. In the acquisition of any land
23 or site the provisions of section 355 of the Revised Statutes,
24 as amended, shall not apply, but the Authority may avail
25 itself of the services of the Attorney General acting in accord-

1 with his powers under such section to procure information
 2 relating to the state of title. The Attorney General shall,
 3 upon the application of the Authority, institute condemnation
 4 proceedings in its name. The practice and procedure govern-
 5 ing such proceedings by the United States shall be followed,
 6 and the Authority shall likewise be entitled to proceed in
 7 accordance with the provisions of an Act of Congress
 8 approved February 26, 1931 (46 Stat. 1421), and an Act
 9 of Congress approved March 1, 1929 (45 Stat. 1415). The
 10 Authority may enter into agreements to reimburse any State
 11 or political subdivision thereof, or any housing agency, for
 12 expenses incurred in the acquisition, by condemnation or
 13 otherwise, of property to be conveyed to the Authority for
 14 the development of a low-rent-housing or slum-clearance
 15 project.

16 (b) The Authority may foreclose on any property or
 17 commence any action to protect or enforce any right conferred
 18 upon it by any law, contract, or other agreement. The
 19 Authority may bid for and purchase at any foreclosure by any
 20 party or at any other sale, or otherwise acquire, and may
 21 administer, any low-rent-housing project which it previously
 22 owned or in connection with which it has made a loan or
 23 grant pursuant to section 9 or a loan pursuant to section 10.

24 (c) The acquisition by the Authority of any real prop-
 25 erty pursuant to this Act shall not deprive any State or politi-

1 cal subdivision thereof of its civil and criminal jurisdiction
 2 in and over such property, or impair the civil rights under
 3 the State or local law of the inhabitants on such property;
 4 and, insofar as any such jurisdiction may have been taken
 5 away or any such rights impaired by reason of the acquisition
 6 of any property transferred to the Authority pursuant to
 7 section 4 (d), such jurisdiction and such rights are hereby
 8 fully restored.

9 (d) The Authority may enter into agreements to pay
 10 annual sums in lieu of taxes to any State or political sub-
 11 division thereof with respect to any real property owned by
 12 the Authority. The amount so paid for any year upon any
 13 such property shall not exceed the taxes that would be paid
 14 to the State or subdivision, as the case may be, upon such
 15 property if it were not exempt from taxation thereby.

16 (e) The Authority may procure insurance against any
 17 loss in connection with its property and other assets (includ-
 18 ing mortgages), in such amounts, and from such insurers,
 19 as it deems desirable.

20 (f) The Authority may dedicate land for parks, play-
 21 grounds, and other recreational facilities, for sewers, for the
 22 opening or widening of streets, for incidental improvements,
 23 or for any other public purpose, and may grant licenses
 24 and easements upon such terms as it deems reasonable.

1 (g) The Authority may sell or exchange at public or
 2 private sale, or lease, any real property (except low-rent-
 3 housing projects, the disposition of which is governed else-
 4 where in this Act) or personal property, and sell or exchange
 5 any securities or obligations, upon such terms as it may fix.
 6 To facilitate the sale of such securities or obligations any
 7 other securities or obligations retained by the Authority may
 8 be subordinated to those sold. The Authority may borrow
 9 on the security of any real or personal property owned by
 10 it, or on the security of the revenues to be derived there-
 11 from, and may use the proceeds of such loans for the purposes
 12 of this Act.

13 SEC. 13. Subject to the specific limitations or standards
 14 in this Act governing the terms of sales, rentals, leases,
 15 loans, contracts of grant, or agreements, the Authority
 16 may, whenever it deems it necessary or desirable in the
 17 fulfillment of the purposes of this Act, consent to the
 18 modification, with respect to rate of interest, time of pay-
 19 ment of any installment of principal or interest, security,
 20 amount of annual contribution, or any other term, of any
 21 contract or agreement of any kind to which the Authority
 22 is a party or which has been transferred to it pursuant to
 23 this Act. Any rule of law contrary to this provision shall be
 24 deemed inapplicable.

STANDARDS

2 SEC. 14. In making any loan or contract of grant for
 3 the development, acquisition, or administration of a project
 4 pursuant to section 9, or any loan for the development or
 5 acquisition of a project pursuant to section 10, and in under-
 6 taking any demonstration project pursuant to section 11,
 7 the Authority shall be guided by these considerations:

8 (1) In the case of a low-rent-housing project, that there
 9 exists in the locality or metropolitan area concerned a short-
 10 age of decent, safe, and sanitary dwellings within the finan-
 11 cial reach of families of low income, which is not being
 12 remedied adequately by private enterprise;

13 (2) In the case of a slum-clearance project, or a low-
 14 rent-housing project which includes slum clearance, that sub-
 15 stantially all of the dispossessed inhabitants will be provided
 16 for by the development of sufficient low-rent housing, within
 17 their financial reach, either upon the site to be cleared or
 18 in some other suitable locality, unless the clearance of the
 19 area will not make it impracticable for the inhabitants
 20 thereof to secure equivalent dwellings elsewhere at no higher
 21 cost to them or better dwellings elsewhere within their
 22 financial reach;

23 (3) That the project conforms to a general program
 24 formulated by the Authority to distribute the benefits of
 25 this Act as widely as practicable throughout the United

1 States, consistent with the needs of the several States and
2 their political subdivisions;

3 (4) That the form of assistance to the project is an
4 appropriate means of carrying out the purposes of this Act
5 in the particular case, and that the amount of financial
6 assistance to be afforded such project by the Authority
7 will not be in excess of the amount necessary for such
8 purposes;

9 (5) That the site on which the project is or shall be
10 developed has been selected primarily for its present and
11 continued suitability for its intended use; that its location
12 and planning are consistent with a logical development of
13 land uses in the locality or metropolitan area, concerned; and
14 that it has been or will be acquired for a reasonable price;

15 (6) The assistance, if any (in the form of partial financ-
16 ing, annual contributions, land in whole or in part, community
17 facilities or services, partial or complete remission of taxes),
18 given to the project by the State or political subdivision in
19 which it is located;

20 (7) That the advice has been sought, where available,
21 of such planning commission or board (created under charter,
22 statute, or ordinance) as may exist in the locality of the
23 project.

24 SEC. 15. In order to insure that the low-rent character
25 of housing projects will be preserved, and thus to protect

1 private industry from the competition that would exist either
2 if other than families of low-income were accepted as tenants
3 in such projects or if such projects were withdrawn from the
4 financial reach of such families, it is hereby provided that—

5 (1) When a loan is made pursuant to section 9 or
6 section 10, the Authority may retain the right, in the event
7 of a substantial breach of the covenant (which shall be em-
8 bodied in the loan agreement) to maintain the low-rent
9 character of the housing project involved or in the event
10 of the acquisition of such project by a third party in any
11 manner including a bona-fide foreclosure under a mortgage
12 or other lien held by a third party, to increase the interest
13 payable thereafter on the balance of said loan then held
14 by the Authority to a rate not in excess of the going Federal
15 rate (at the time of such breach) plus 2 per centum per
16 annum or to declare the unpaid principal on said loan due
17 forthwith.

18 (2) When a contract of grant is made pursuant to sec-
19 tion 9, the Authority shall retain the right, in the event
20 of a substantial breach of the covenant (which shall be
21 embodied in such contract of grant) to maintain the low-
22 rent character of the housing project involved, to reduce
23 or terminate the annual contributions payable under such
24 contract of grant. In the event of the acquisition of such
25 project by a third party in any manner including a bona-

1 vide foreclosure under a mortgage or other lien held by a
2 third party, such annual contributions shall terminate.

3 (3) When a lease of a low-rent-housing project is made
4 pursuant to section 11, the Authority shall retain the right
5 to terminate such lease in the event of a substantial breach
6 of the covenant (which shall be embodied in such lease) to
7 maintain the low-rent character of such housing project.

8 (4) The Authority may also insert in any contract of
9 loan or grant, lease, mortgage, or any other agreement or
10 instrument made pursuant to this Act, such other covenants,
11 conditions, or provisions as it may deem necessary in order
12 to insure the low-rent character of the housing project
13 involved.

14 SEC. 16. In order to protect labor standards—

15 (1) The provisions of the Act of August 30, 1935,
16 entitled "An Act to amend the Act approved March 3, 1931,
17 relating to the rate of wages for laborers and mechanics
18 employed by contractors and subcontractors on public build-
19 ings" (49 Stat. 1011), and of the Act of August 24, 1935,
20 entitled "An Act requiring contracts for the construction,
21 alteration, and repair of any public building or public work
22 of the United States to be accompanied by a performance
23 bond protecting the United States and by an additional bond
24 for the protection of persons furnishing material and labor
25 for the construction, alteration, and repair for the said public

1 buildings and public works" (U. S. C., Supp., 1934 edition,
2 title 40, sec. 270 (a) to (d), inclusive), shall apply to
3 contracts in connection with the development or administra-
4 tion of low-rent-housing or slum-clearance demonstration
5 projects and the furnishing of materials and labor for
6 such projects: *Provided*, That suits shall be brought in
7 the name of the Authority and that the Authority shall
8 itself perform the duties prescribed by section 3 (a) of the
9 Act of August 30, 1935, and section 3 of the Act of August
10 24, 1935.

11 (2) Any contract for a loan, grant, sale, or lease pur-
12 suant to this Act shall contain a provision requiring that
13 the wages prevailing in the locality, as determined or adopted
14 (subsequent to a determination under applicable State or
15 local law) by the Authority, shall be paid to all laborers
16 and mechanics employed in the development or adminis-
17 tration of the low-rent-housing or slum-clearance project
18 involved; and the Authority may require certification as to
19 compliance with the provisions of this paragraph prior to
20 making any payment under such contract.

21 (3) The Act entitled "An Act limiting the hours of
22 daily services of laborers and mechanics employed upon work
23 done for the United States, or for any Territory, or for the
24 District of Columbia, and for other purposes", as amended
25 (37 Stat. 137), shall apply to contracts of the Authority

1 for work in connection with the development and adminis-
 2 tration of low-rent-housing or slum-clearance demonstration
 3 projects.

4 (4) The benefits of the Act entitled "An Act to pro-
 5 vide compensation for employees of the United States suf-
 6 fering injuries while in the performance of their duties, and
 7 for other purposes" (39 Stat. 742), shall extend to officers
 8 and employees of the Authority.

9 (5) The provisions of sections 1 and 2 of the Act of
 10 June 13, 1934 (U. S. C., title 40, sec. 276 (b) and (c)),
 11 shall apply to any low-rent-housing or slum-clearance proj-
 12 ect financed in whole or in part with funds made available
 13 pursuant to this Act.

14 (6) Any contractor engaged on any project financed
 15 in whole or in part with funds made available pursuant to
 16 this Act shall report monthly, and shall cause all subcon-
 17 tractors to report in like manner (within five days after the
 18 close of each calendar month, on forms to be furnished by
 19 the United States Department of Labor), as to the number
 20 of persons on their respective pay rolls, the aggregate
 21 amount of such pay rolls, the total man-hours worked, and
 22 itemized expenditures for materials. Any such contractor
 23 shall furnish to the Department of Labor the names and
 24 addresses of all subcontractors on the work at the earliest
 25 date practicable.

1 FINANCIAL PROVISIONS

2 SEC. 17. The Authority shall have a capital stock of
 3 \$1,000,000, which shall be subscribed by the United States
 4 and paid by the Secretary of the Treasury out of any avail-
 5 able funds. Receipt for such payment shall be issued to the
 6 Secretary of the Treasury by the Authority and shall evi-
 7 dence the stock ownership of the United States of America.

8 SEC. 18. There is hereby authorized to be appropriated,
 9 out of any money in the Treasury not otherwise appro-
 10 priated, the sum of \$51,000,000 for the fiscal year ending
 11 June 30, 1938, of which \$1,000,000 shall be available to
 12 pay the subscription to the capital stock of the Authority.
 13 Such sum, and all receipts and assets of the Authority, shall
 14 be available for the purposes of this Act until expended.

15 SEC. 19. (a) Any funds available under any Act of
 16 Congress for allocation for housing or slum clearance may,
 17 in the discretion of the President, be allocated to the Author-
 18 ity for the purposes of this Act.

19 (b) Any unallocated funds now in the hands of the
 20 Federal Emergency Administration of Public Works, or
 21 hereafter received by it, which are derived from the sale of
 22 securities acquired pursuant to Title 2 of the National
 23 Industrial Recovery Act or the Emergency Relief Appro-
 24 priation Act of 1935, may, in the discretion of the President,
 25 be allocated to the Authority for the purposes of this Act.

1 SEC. 20. (a) The Authority is authorized to issue obli-
 2 gations, in the form of notes, bonds, or otherwise, which
 3 it may sell to obtain funds for the purposes of this Act.
 4 The Authority may issue such obligations in an amount
 5 not to exceed \$200,000,000 on or after July 1, 1937, an
 6 additional amount not to exceed \$250,000,000 on or after
 7 July 1, 1938, an additional amount not to exceed \$250,-
 8 000,000 on or after July 1, 1939, and an additional amount
 9 not to exceed \$300,000,000 on or after July 1, 1940.

10 Such obligations shall be in such forms and denomina-
 11 tions, mature within such periods not exceeding sixty years
 12 from date of issue, bear such rates of interest not exceeding
 13 4 per centum per annum, be subject to such terms and
 14 conditions, and be issued in such manner and sold at such
 15 prices as may be prescribed by the Authority, with the
 16 approval of the Secretary of the Treasury.

17 (b) Such obligations shall be exempt, both as to
 18 principal and interest, from all taxation (except surtaxes,
 19 estate, inheritance, and gift taxes) now or hereafter imposed
 20 by the United States or by any State, county, municipality,
 21 or local taxing authority.

22 (c) Such obligations shall be fully and unconditionally
 23 guaranteed upon their face by the United States as to the
 24 payment of both interest and principal, and, in the event that
 25 the Authority shall be unable to make any such payment

1 upon demand when due, payments shall be made to the holder
 2 by the Secretary of the Treasury with money hereby author-
 3 ized to be appropriated for such purpose out of any money
 4 in the Treasury not otherwise appropriated. To the extent
 5 of such payment the Secretary of the Treasury shall succeed
 6 to all the rights of the holder.

7 (d) Such obligations shall be lawful investments and
 8 may be accepted as security for all fiduciary, trust, and public
 9 funds the investment or deposit of which shall be under the
 10 authority or control of the United States or any officer or
 11 agency thereof. The Secretary of the Treasury is likewise
 12 authorized to purchase any such obligations, and for such
 13 purchases he may use as a public-debt transaction the pro-
 14 ceeds from the sale of any securities hereafter issued under
 15 the Second Liberty Bond Act, as amended, and the purposes
 16 for which securities may be issued under such Act, as
 17 amended, are extended to include any such purchases. The
 18 Secretary of the Treasury may at any time sell any of the
 19 obligations acquired by him pursuant to this section, and all
 20 redemptions, purchases, and sales by him of such obligations
 21 shall be treated as public-debt transactions of the United
 22 States.

23 (e) Such obligations may be marketed for the Author-
 24 ity at its request by the Secretary of the Treasury, utilizing

1 all the facilities of the Treasury Department now authorized
2 by law for the marketing of obligations of the United States.

3 SEC. 21. (a) Any money of the Authority not other-
4 wise employed may be deposited, subject to check, with the
5 Treasurer of the United States or in any Federal Reserve
6 bank, or may be invested in obligations of the United States
7 or used in the purchase or retirement or redemption of any
8 obligations issued by the Authority.

9 (b) The Federal Reserve banks are authorized and
10 directed to act as depositories, custodians, and fiscal agents
11 for the Authority in the general exercise of its powers, and
12 the Authority may reimburse any such bank for its services
13 in such manner as may be agreed upon.

14 (c) The Authority may be employed as a financial
15 agent of the Government. When designated by the Secretary
16 of the Treasury, and subject to such regulations as he may
17 prescribe, the Authority shall be a depository of public
18 money, except receipts from customs.

19 PENALTIES

20 SEC. 22. All general penal statutes relating to the larceny,
21 embezzlement, or conversion or to the improper handling,
22 retention, use, or disposal of public moneys or property of
23 the United States shall apply to the moneys and property
24 of the Authority and to moneys and properties of the United
25 States entrusted to the Authority.

1 SEC. 23. Any person who, with intent to defraud the
2 Authority or to deceive any director, officer, or employee
3 thereof or any officer or employee of the United States, makes
4 any false entry in any book of the Authority or makes any
5 false report or statement to or for the Authority shall, upon
6 conviction thereof, be fined not more than \$1,000 or im-
7 prisoned for not more than one year, or both.

8 SEC. 24. Any person who shall receive any compensa-
9 tion, rebate, or reward, or shall enter into any conspiracy,
10 collusion, or agreement, express or implied, with intent to
11 defraud the Authority or with intent unlawfully to defeat
12 its purposes, shall, upon conviction thereof, be fined not more
13 than \$1,000 or imprisoned for not more than one year, or
14 both.

15 SEC. 25. Any person who induces or influences the
16 Authority to purchase or acquire any property or to enter
17 into any contract and willfully fails to disclose any interest,
18 legal or equitable, which he has in such property or in the
19 property to which such contract relates, or any special bene-
20 fit which he expects to receive as a result of such contract,
21 shall, upon conviction thereof, be fined not more than \$1,000
22 or imprisoned for not more than one year, or both.

23 SEC. 26. No individual, association, partnership, or cor-
24 poration shall use the words "United States Housing Author-
25 ity", or any combination of these four words, as the name,

1 or part thereof, under which he or it shall do business. Any
2 such use shall constitute a misdemeanor and shall be pun-
3 ishable by a fine not exceeding \$1,000.

4 SEC. 27. Wherever the application of the provisions of
5 this Act conflicts with the application of the provisions of
6 Public, Numbered 837, approved June 29, 1936 (49 Stat.
7 2025), Public, Numbered 845, approved June 29, 1936
8 (49 Stat. 2035), or any other Act of the United States
9 dealing with housing or slum clearance, or any Executive
10 order, regulation or other order thereunder, the provisions
11 of this Act shall prevail.

12 SEC. 28. Notwithstanding any other evidences of the
13 intention of Congress, it is hereby declared to be the con-
14 trolling intent of Congress that if any provision of this Act,
15 or the application thereof to any person or circumstances, is
16 held invalid, the remainder of this Act, or the application of
17 such provision to persons or circumstances other than those
18 as to which it is held invalid, shall not be affected thereby.

19 SEC. 29. This Act may be cited as the "United States
20 Housing Act of 1937."

Approved: _____
21st day of _____ 1937.
By: _____
Secretary of the Interior

A BILL

21982

75TH CONGRESS }
1st Session

S. 1685

A BILL

To provide financial assistance to the States and political subdivisions thereof for the elimination of unsafe and insanitary housing conditions, for the provision of decent, safe, and sanitary dwellings for families of low income, and for the reduction of unemployment and the stimulation of business activity, to create a United States Housing Authority, and for other purposes.

By Mr. WAGNER

FEBRUARY 24, 1937

Read twice and referred to the Committee on Education and Labor

DIGEST OF WAGNER HOUSING BILL - S. 1685

SECTION ONE contains a general declaration of policy.

SECTION TWO contains definitions. The most important definition is one which limits occupants of housing projects to families whose incomes do not exceed five times the rental to be charged. This sets a standard designed to keep the projects available only for families of low income. Department of Labor statistics show that on an average a low income family can afford to pay between one-fifth and one-fourth of its income for rental.

More important than this administrative standard are the subsidy provisions in the bill, which are the final determinants of whether from the financial point of view the projects can be made available for families of low income. These subsidy provisions will be discussed in connection with Section 9.

SECTION THREE creates a United States Housing Authority of three members. The only other agency of the Federal Government which is dealing with low-rent housing problems is the Public Works Administration, and thus a choice lies between making the new agency a part of the Public Works Housing Division or of transferring the housing division to the new Authority. The bill authorizes such transfer, and it is submitted that this would be the better way of getting the program off to a fresh start unen-

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cumbered by the mistakes of prior agencies.

SECTIONS FOUR and FIVE deal with routine matters of administration.

SECTION FIVE also raises the question of the extent to which the bonds issued by local housing authorities should be exempt from Federal taxation. It is submitted that partial tax exemption, putting these bonds on a par with the bonds issued by the U. S. Housing Authority, would be a relatively cheap way of providing assistance to local projects and would tend to induce a larger inflow of local money.

SECTIONS SIX, SEVEN and EIGHT deal with routine administrative matters.

SECTION NINE, which is the heart of the bill, deals with grants and loans to local public housing agencies.

All loans are to be repayable in full to the Federal Government, plus at least the going Federal rate of interest upon bonds having a term of ten years or more at the time such loans are made.

The grants or subsidies for low-rent housing projects are to be in the form of fixed and uniform annual contributions, modeled upon the English system. No such annual contribution is to be more than a sum equal to the annual yield at the going Federal rate of interest plus 1% upon the development cost of the project.

The bill specifically sets forth that the grants shall be payable out of congressional appropriations, and not out of the moneys available for loans, nor out of realizations on the principal of loans. Furthermore, the new contracts for annual contributions are limited to \$10,000,000 in

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any one fiscal year, and the faith of the United States is pledged to their payment.

Attached is a table (Exhibit One) showing the rentals obtainable and the income groups reached under this form and amount of subsidy, contrasted with the rentals and income groups reached under existing facilities of the Federal Government. Present facilities cannot reach low income groups; and this plan will.

It is submitted that the form and amount of subsidy provided under this bill, in addition to its capacity to reach low income groups, will tend to produce much lower building costs than the capital grants provided by the Public Works Administration, and in addition will provide a much more effective annual check, both upon financial operations and upon the character of tenants accepted in housing projects.

SECTION TEN provides loans to limited dividend companies for housing. Such loans are not to exceed 85% of the development cost, are to bear a rate of interest equivalent to at least the going Federal rate, and are not to aggregate more than \$25,000,000 per year.

SECTION ELEVEN facilitates the rapid transfer of existing Federal housing projects to local authorities, and in addition authorizes a limited number of demonstration projects in areas where local authorities are not properly constituted to do low-rent housing. A limitation of \$25,000,000 per year is placed upon the total volume of new demonstration projects, thus holding them to one-tenth per cent of the total program.

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SECTION TWELVE confers upon the Authority such powers in connection with the acquisition and disposition of property as would ordinarily be conferred upon a business corporation, and confers also the right of eminent domain. However, the bill in no way removes obstacles confronting other agencies in attempting to exercise eminent domain under other statutes.

SECTION THIRTEEN confers power to modify contracts by mutual consent.

SECTIONS FOURTEEN and FIFTEEN set forth definite legislative standards, designed to protect the financial position of the Authority as a lending agency, and also to insure the perpetual low rent character of the projects. It also sets forth, as a consideration in extending aid, though not as a mandatory provision, the amount and character of local contributions toward housing projects.

SECTION SIXTEEN sets forth basic labor standards, comparable to those incorporated in analogous Federal statutes.

SECTIONS SEVENTEEN and EIGHTEEN provide a capital stock of \$1,000,000 for the Authority, and an additional appropriation of \$50,000,000 to cover administration expenses and annual subsidies during the first four years of the program.

SECTION NINETEEN authorizes the President in his discretion to assign to the Authority unallocated funds of any Governmental agency engaged in housing,

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and the funds of the Federal Emergency Administration of Public Works.

SECTION TWENTY authorizes the Authority to issue bonds over a four-year period, in an amount of \$1,000,000,000, to be used as loans for low-rent housing and slum-clearance projects. The bonds are guaranteed as to principal & interest by the U.S. and are tax exempt except as to Federal surtaxes and estate inheritance and gift taxes.

The attached table (Exhibit two) shows the cost of the total program to the Federal Government during the first four years, and the average annual cost thereafter, first upon the basis of a \$1,000,000,000 program covered entirely by Federal loans, and second upon the basis of a \$1,500,000,000 program covered two-thirds by Federal loans and one-third by the private purchase of the bonds of local authorities.

SECTION TWENTY-ONE provides that any money of the Authority not otherwise employed may be invested in obligations of the United States or used in the purchase or retirement or redemption of any obligations issued by the Authority.

SECTIONS TWENTY-TWO, TWENTY-THREE, TWENTY-FOUR, TWENTY-FIVE and TWENTY-SIX are penal provisions.

SECTIONS TWENTY-SEVEN and TWENTY-EIGHT cover conflicts between this Act and other Acts and contain the standard separability provisions.

SECTION TWENTY-NINE contains the title of the Act.

RENT PER ROOM AND INCOME GROUPS REACHED
BY PRIVATE ENTERPRISE AND
PUBLIC HOUSING

	Cost Per Room \$1000 (Operating Exp. 2.61) (Taxes 2.00) 4.61		Cost Per Room \$1335 (Operating Exp. 3.48) (Taxes 2.67) 6.15	
	<u>Rent per Room</u>	<u>Income Group Reached</u>	<u>Rent per Room</u>	<u>Income Group Reached</u>
<u>Private Enterprise</u>				
Actual experience of the 43 low-rent housing projects of F. H. A.			\$13.82	\$3317
<u>Private Enterprise</u>				
Assuming it is possible to build for cost of \$1000 per room	\$10.37	\$2489		
<u>Public Housing Under Wagner-Steagall Bill Paying no local taxes</u>				
Capital from U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½	2.34	562	3.12	749
2½	3.34	802	4.45	1069
Capital ½ Private sources 4½ 30 yrs.				
½ U.S.H.A. 2½ 60 yrs.				
Subsidy 3½	3.80	912	5.07	1217
2½	4.80	1152	6.40	1537
<u>Public Housing Under Wagner-Steagall Bill Paying Half local taxes</u>				
Capital from U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½	3.34	802	4.45	1068
2½	4.34	1042	5.78	1388
Capital ½ private sources 4½ 30 yrs.				
½ U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½	4.80	1152	6.40	1536
2½	5.80	1392	7.73	1856
<u>Public Housing Under Wagner-Steagall Bill Paying full local taxes</u>				
Capital from U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½	4.34	1042	5.79	1390
2½	5.34	1282	7.12	1710

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<u>Cost Per Rcm \$1000</u>		<u>Cost Per Rcm \$1333</u>	
(Operating Exp.	2.61)	(Operating Exp.	3.49)
(Taxes	<u>2.00</u>)	(Taxes	<u>2.67</u>)
	4.61		6.15

	<u>Rent</u> <u>Per</u> <u>Rcm</u>	<u>Income</u> <u>Group</u> <u>Reached</u>	<u>Rent</u> <u>Per</u> <u>Rcm</u>	<u>Income</u> <u>Group</u> <u>Reached</u>
Capital $\frac{1}{2}$ private sources $4\frac{1}{2}$ 30 yrs.				
$\frac{1}{2}$ U.S.H.A. @ $2\frac{1}{2}$ 60 yrs				
Subsidy $3\frac{1}{2}$	5.30	1392	7.73	1355
$2\frac{1}{2}$	6.30	1632	9.06	2175
Public Housing Under P.W.A. Formula of <u>45% Cap. Grant, Balance 3% 60 yrs.</u>				
Paying no taxes	4.60	1104	6.13	1471
Paying $\frac{1}{2}$ taxes	5.60	1344	7.46	1791
Paying full taxes	6.60	1594	3.79	2111

Income groups served is based on normal family of 2 or 3 children using 4 rooms and paying 20% of income for rent.

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COMPARISON OF ESTIMATED ROOM COSTS UNDER TREASURY PLAN, WILLIAMSBURG AND TECHWOOD PROJECTS;
AND ESTIMATED MONTHLY ROOM CHARGES FOR EACH PROJECT UNDER TREASURY, PWA AND WAGNER BILL AMORTIZATION SCHEDULES

DESCRIPTION	TREASURY	WILLIAMSBURG	TECHWOOD
	3-story apartments	4-story apartments	3-story apartments and 2-story Row Houses
1. Type of Structure			
2. Average Land Cost per Square Foot	1.00	3.93	.66
<u>ESTIMATED CAPITAL COST PER ROOM</u>			
3. Land	180.00	742.55	271.84
4. Construction	930.00	1,353.72	749.69
5. Administration and Overhead including architectural and engineering service	56.00	53.17	95.68
6. Interest during construction	15.00	(1)	(1)
7. Contingencies	19.00	54.47	.00
8. TOTAL	1,200.00	2,203.72	1,117.11
<u>ESTIMATED MONTHLY ROOM CHARGES UNDER TREASURY AMORTIZATION SCHEDULE</u>			
9. Interest on Land Costs @ 3% (5) . . . . .	.45	1.66	.68
10. Amortization in 40 years @ 3% Interest, on Capital Cost excluding land (2)	3.68	5.27	3.06
11. Taxes or Service Charges	(3)	.00	.36
12. Operation and Maintenance	3.50	4.73	4.27
13. Loss of Rental and Vacancies @ 10% (4) . . . . .	.85	1.32	.93
14. TOTAL	8.48	13.18	9.29
<u>ESTIMATED MONTHLY ROOM CHARGES UNDER P.W.A. AMORTIZATION SCHEDULE</u>			
15. Amortization in 59 years @ 3% Interest, on 55% of Total Capital Cost	2.00	3.67	1.86
16. Taxes or Service Charges	(3)	.00	.36
17. Operation and Maintenance	3.50	4.73	4.27
18. Vacancies @ 5% . . . . .	.29	.44	.54
19. TOTAL	5.79	8.84	6.63
<u>ESTIMATED MONTHLY ROOM CHARGES UNDER WAGNER BILL (Assuming annual grant equals annual charge for interest and amortization on 100% Capital Loan)</u>			
20. Taxes or Service Charges	(3)	.00	.36
21. Operation and Maintenance	3.50	4.73	4.27
22. Vacancies @ 5% . . . . .	.18	.25	.24
23. TOTAL	3.68	4.98	4.87
<u>ESTIMATED MONTHLY ROOM SUBSIDY</u>			
24. Under Treasury Plan . . . . .	.00	.00	.00
25. Under P.W.A. Plan (Amortization in 59 years @ 3% interest on 45% of Total Capital Cost)	1.64	3.00	1.52
26. Under Wagner Bill (Amortization in 60 years @ 3% interest on 100% of Total Capital Cost)	3.24	6.94	3.01

- (1) Not available.
- (2) Forty years is considered to be the maximum period advisable for amortization because of the effects of obsolescence and outmoding regardless of physical depreciation.
- (3) No taxes are included in Treasury Plan because of the extreme variation of rates, and the likelihood that tax exemption or nominal service charges will be accorded projects in many cities.
- (4) Sound judgment dictates the use of 10% as a factor covering vacancies and loss of rental, because of the uncertain income of the tenancy. It also provides a cushion against unforeseen contingencies.
- (5) If land cost were amortized in 40 yrs. @ 3% land charges would increase 20%, 52%, and 30% respectively.

NOTE: The figures shown for Techwood and Williamsburg are estimates derived from confidential data submitted to the Bureau of the Budget; the cost and expense figures shown are estimates for dwelling rooms after adjusting for amounts applicable to dormitories and non-living units, as explained in the accompanying memorandum.

1. Type of Structure: Multi-family apartment buildings consisting generally of thirty family units of an average size of four rooms (three rooms, kitchen and bath) per unit. Buildings to be fireproof up to but not including the roof; to have a part basement for heating plant, laundry and storage space; and to be equipped with the usual plumbing, lighting, cooking and refrigerator fixtures.

Gross floor area per room - 180 sq. ft.
Gross cubic contents per room - 2150 cu. ft.
2. Average Land Cost: The cost of \$1.00 per sq. ft. is assumed to include roads, sidewalks, utilities and landscaping.
3. Land: The land coverage is 33-1/3% equivalent to 180 square feet per room.
4. Construction: The cost of construction including builders' fee is equivalent to approximately 43.25¢ per cubic foot.
5. Administration and Overhead, etc. includes architects' and engineers' fees for surveys, drawings and specifications, field supervision and administration.
6. Interest during Construction: This item covers the interest on the capital expenditures during the period of design and construction.
7. Contingencies: Approximately 2% of the estimated construction cost.
8. Total: The total cost assumes a complete building ready for operation and occupancy.
9. Interest on Land Cost: It is assumed that the land will be held for public use and that amortization of this item is not desirable.
10. Amortization, etc.: Although it is probable that the physical structure would last many years beyond the 40-year period, it is believed that changes in mechanical equipment, mode of living, and developments in transportation and neighborhood changes in this span of years do not justify the consideration of a longer period.
11. Taxes or Service Charges: The general policy of tax exemption being established for low rental housing in the larger cities and the wide variation in the tax rate in the small communities makes it difficult to establish an accurate figure for this item.
12. Operation and Maintenance: This item includes cost of heat, water, lighting, janitor service, repairs and maintenance, and rent administration.
13. Loss of Rental and Vacancies: This item is obvious. Although the number of vacancies would probably be low, it is believed that the loss of rental would be somewhat higher than normal. The amount of 10% will probably allow some cushion for unexpected increases in operating expenses.
14. Total: This item represents the minimum rental required to equal the carrying charges. It is subject to change on account of the addition of taxes, increase in future operating costs, or decrease by reason of subsidy or write-off.

NET COST TO FEDERAL GOVERNMENT OF \$1,000,000,000 LOW RENT

HOUSING PROGRAM FINANCED ENTIRELY BY FEDERAL LOANS

(All loans would be repayable in full plus at least
going federal rate of interest)

Fiscal year	Family Dwelling Units Constructed	Total Capital Loans (at \$4,000 per family unit)	Annual Contributions Through Federal Appropriations (each contribution beginning in first year subsequent to construction)		
			3½% of capital cost	3% of capital cost	2½% of capital cost
1938	50,000	\$200,000,000	----	----	----
1939	62,500	250,000,000	\$7,000,000	\$6,000,000	\$5,000,000
1940	62,500	250,000,000	15,750,000	13,500,000	11,250,000
1941	75,000	300,000,000	24,500,000	21,000,000	17,500,000
Total contributions for first four years of program			\$47,250,000	\$40,500,000	\$33,750,000
Contributions per year after 1941 for each \$1,000,000,000 of housing			\$35,000,000	\$30,000,000	\$25,000,000

5.5 mil times 56 yrs = 2,060,000,000

$$\frac{2,060,000,000}{47} = 43,830,000$$

$$\frac{2,060,000,000}{71} = 29,014,084$$

SECTION ONE contains a general declaration of policy.

SECTION TWO contains definitions. The most important definition is one which limits occupants of housing projects to families whose incomes do not exceed five times the rental to be charged. This sets a standard designed to keep the projects available only for families of low income. Department of Labor statistics show that on an average a low income family can afford to pay between one-fifth and one-fourth of its income for rental.

More important than this administrative standard are the subsidy provisions in the bill, which are the final determinants of whether from the financial point of view the projects can be made available for families of low income. These subsidy provisions will be discussed in connection with Section 9.

SECTION THREE creates a United States Housing Authority of three members. The only other agency of the Federal Government which is dealing with low-rent housing problems is the Public Works Administration, and ^{thus} a choice lies between making the new agency a part of the Public Works Housing Division or of transferring the housing division to the new Authority. The bill authorizes such transfer, and it is submitted that this would be the better way of getting the program off to a fresh start un-

numbered by the mistakes of prior agencies. ²

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SECTIONS FOUR and FIVE deal with routine matters of administration.

SECTION FIVE also raises the question of the extent to which the bonds issued by local housing authorities should be exempt from Federal taxation.

It is submitted that partial tax exemption, putting these bonds on a par

with the bonds issued by the ^{U.S.} ~~Federal~~ ^{Anthony} Housing Administration, would be a

relatively cheap way of providing assistance to local projects and would tend to induce a larger inflow of local money.

SECTIONS SIX, SEVEN and EIGHT deal with routine administrative matters.

SECTION NINE, which is the heart of the bill, deals with grants and loans to local public housing agencies.

All loans are to be repayable in full to the Federal Government, plus at least the going Federal rate of interest upon bonds having a term of ten years or more at the time such loans are made.

The grants or subsidies for low-rent housing projects are to be in the form of fixed and uniform annual contributions, modeled upon the English system. No such annual contribution is to be more than a sum equal to the annual yield at the going Federal rate of interest plus 1% upon the development cost of the project.

The bill specifically sets forth that the grants shall be payable out of congressional appropriations, and not out of the moneys available

for loans, nor out of realizations on the principal of loans. Furthermore, the new contracts for annual contributions are limited to \$10,000,000 in any one fiscal year, and the faith of the United States is pledged to their payment.

Attached is a table (Exhibit One) showing the rentals obtainable and the income groups reached under this form and amount of subsidy, contrasted with the rentals and income groups reached under existing facilities of the Federal Government. Present facilities cannot reach low income groups; and this plan will.

It is submitted that the form and amount of subsidy provided under this bill, in addition to its capacity to reach low income groups, will tend to produce much lower building costs than the capital grants provided by the Public Works Administration, and in addition will provide a much more effective annual check, both upon financial operations and upon the character of tenants accepted in housing projects.

SECTION TEN provides loans to limited dividend companies for housing. Such loans are not to exceed 85% of the development cost, are to bear a rate of interest equivalent to at least the going Federal rate, and are not to aggregate more than \$25,000,000 per year.

SECTION ELEVEN facilitates the rapid transfer of existing Federal housing projects to local authorities, and in addition authorizes a limited number of demonstration projects in areas where local authorities are not properly

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constituted to do low-rent housing. A limitation of \$25,000,000 per year is placed upon the total volume of new demonstration projects, thus holding them to one-tenth per cent of the total program.

SECTION TWELVE confers upon the Authority such powers in connection with the acquisition and disposition of property as would ordinarily be conferred upon a business corporation, and confers also the right of eminent domain. However, the bill in no way removes obstacles confronting other agencies in attempting to exercise eminent domain under other statutes.

SECTION THIRTEEN confers power to modify contracts by mutual consent.

SECTIONS FOURTEEN and FIFTEEN set forth definite legislative standards, designed to protect the financial position of the Authority as a lending agency, and also to insure the perpetual low rent character of the projects. It also sets forth, as a consideration in extending aid, though not as a mandatory provision, the amount and character of local contributions toward housing projects.

SECTION SIXTEEN sets forth basic labor standards, comparable to those incorporated in analogous Federal statutes.

SECTIONS SEVENTEEN and EIGHTEEN provide a capital stock of \$1,000,000 for the Authority, and an additional appropriation of \$50,000,000 to cover administration expenses and annual subsidies during the first four years of the program.

SECTION NINETEEN authorizes the President in his discretion to assign to the Authority unallocated funds of any Governmental agency engaged in housing,

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and the funds of the Federal Emergency Administration of Public Works.

SECTION TWENTY authorizes the Authority to issue bonds over a four-year period, in an amount of \$1,000,000,000, to be used as loans for low-rent housing and slum-clearance projects. The bonds are guaranteed as to principal & interest by the U. S. and are tax exempt except as to Federal surtaxes and estate inheritance and gift taxes.

The attached table (Exhibit two) shows the cost of the total program to the Federal Government during the first four years, and the average annual cost thereafter, first upon the basis of a \$1,000,000,000 program covered entirely by Federal loans, and second upon the basis of a \$1,500,000,000 program covered two-thirds by Federal loans and one-third by the private purchase of the bonds of local authorities.

SECTION TWENTY-ONE provides that any money of the Authority not otherwise employed may be invested in obligations of the United States or used in the purchase or retirement or redemption of any obligations issued by the Authority.

SECTIONS TWENTY-TWO, TWENTY-THREE, TWENTY-FOUR, TWENTY-FIVE and TWENTY-SIX are penal provisions.

SECTIONS TWENTY-SEVEN and TWENTY-EIGHT cover conflicts between this Act and other Acts and contain the standard separability provisions.

SECTION TWENTY-NINE contains the title of the Act.

**RENT PER ROOM AND INCOME GROUPS REACHED
BY PRIVATE ENTERPRISE AND
PUBLIC HOUSING**

	<u>Cost Per Room \$1000</u>		<u>Cost Per Room \$1500</u>	
	(Operating Exp. 2.61)	(Operating Exp. 3.48)	(Operating Exp. 3.48)	(Operating Exp. 3.48)
	(Taxes 2.00)	(Taxes 2.67)	(Taxes 2.67)	(Taxes 2.67)
	4.61	6.15	6.15	6.15
	<u>Rent per Room</u>	<u>Income Group Reached</u>	<u>Rent per Room</u>	<u>Income Group Reached</u>
<u>Private Enterprises</u>				
Actual experience of the 43 low-rent housing projects of F. H. A.			\$13.82	\$33.17
<u>Private Enterprises</u>				
Assuming it is possible to build for cost of \$1000 per room	\$10.37	\$2489		
<u>Public Housing Under Wagner-Steagall Bill Paying no local taxes</u>				
Capital from U. S. H. A. @ 2½ 60 yrs.	2.34			
Subsidy 3½		562	3.12	749
2½	3.34	802	4.45	1069
Capital ½ Private sources 4½ 30 yrs.				
½ U.S.H.A. 2½ 60 yrs.				
Subsidy 3½	3.80	912	5.07	1217
2½	4.80	1152	6.40	1537
<u>Public Housing Under Wagner-Steagall Bill Paying Half local taxes</u>				
Capital from U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½	3.34	802	4.45	1068
2½	4.34	1042	5.78	1368
Capital ½ private sources 4½ 30 yrs.				
½ U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½	4.80	1152	6.40	1536
2½	5.80	1392	7.73	1856
<u>Public Housing Under Wagner-Steagall Bill Paying full local taxes</u>				
Capital from U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½	4.34	1042	5.78	1390
2½	5.34	1282	7.12	1710

	<u>Cost Per Room \$1000</u>		<u>Cost Per Room \$1233</u>	
	(Operating Exp. 2.61)		(Operating Exp. 3.48)	
	(Taxes <u>2.00</u>)		(Taxes <u>2.67</u>)	
	4.61		6.15	
	<u>Rent</u>	<u>Income</u>	<u>Rent</u>	<u>Income</u>
	<u>Per</u>	<u>Group</u>	<u>Per</u>	<u>Group</u>
	<u>Room</u>	<u>Reached</u>	<u>Room</u>	<u>Reached</u>
Capital $\frac{1}{2}$ private sources $4\frac{1}{2}$ 30 yrs.				
$\frac{1}{2}$ U.S.H.A. @ $2\frac{1}{2}$ 60 yrs.				
Subsidy $3\frac{1}{2}$	5.80	1392	7.73	1855
$2\frac{3}{4}$	6.80	1632	9.06	2175
Public Housing Under P.W.A. Formula of				
<u>45% Cap. Grant, Balance 3% 90 yrs.</u>				
Paying no taxes	4.60	1104	6.13	1471
Paying $\frac{1}{2}$ taxes	5.60	1344	7.46	1791
Paying full taxes	6.60	1584	8.79	2111

Income groups served is based on normal family of 2 or 3 children using 4 rooms and paying 20% of income for rent.

RENT PER ROOM AND INCOME GROUPS REACHED

BY PRIVATE ENTERPRISE AND

PUBLIC HOUSING

	<u>Cost Per Room \$1000</u>		<u>Cost Per Room \$1333</u>	
	(Operating Exp. 2.61) (Taxes <u>2.00</u>) 4.61		(Operating Exp. 3.48) (Taxes <u>2.67</u>) 6.15	
	<u>Rent</u> per <u>Room</u>	<u>Income</u> Group <u>Reached</u>	<u>Rent</u> per <u>Room</u>	<u>Income</u> Group <u>Reached</u>
<u>Private Enterprise</u>				
Actual experience of the 43 low-rent housing projects of F. H. A.			\$13.82	\$33.17
<u>Private Enterprise</u>				
Assuming it is possible to build for cost of \$1000 per room	\$10.37	\$2489		
<u>Public Housing Under Wagner-Steagall Bill</u> <u>Paying no local taxes</u>				
Capital from U. S. H. A. @ 2½ 60 yrs.	2.34			
Subsidy 3½ 2½	3.34	562 802	3.12 4.45	7.49 1069
Capital ½ Private sources 4½ 30 yrs. ½ U.S.H.A. 2½ 60 yrs.				
Subsidy 3½ 2½	3.80 4.80	912 1152	5.07 6.40	1217 1537
<u>Public Housing Under Wagner-Steagall Bill</u> <u>Paying Half local taxes</u>				
Capital from U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½ 2½	3.34 4.34	802 1042	4.45 5.78	1068 1388
Capital ½ private sources 4½ 30 yrs. ½ U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½ 2½	4.80 5.80	1152 1392	6.40 7.73	1536 1856
<u>Public Housing Under Wagner-Steagall Bill</u> <u>Paying full local taxes</u>				
Capital from U.S.H.A. @ 2½ 60 yrs.				
Subsidy 3½ 2½	4.34 5.34	1042 1282	5.79 7.12	1390 1710

	<u>Cost Per Room \$1000</u>		<u>Cost Per Room \$1333</u>	
	(Operating Exp. 2.61)	(Operating Exp. 3.48)		
	(Taxes <u>2.00</u>)	(Taxes <u>2.67</u>)		
	4.61	6.15		
	<u>Rent</u>	<u>Income</u>	<u>Rent</u>	<u>Income</u>
	<u>Per</u>	<u>Group</u>	<u>Per</u>	<u>Group</u>
	<u>Room</u>	<u>Reached</u>	<u>Room</u>	<u>Reached</u>
Capital $\frac{1}{2}$ private sources $4\frac{1}{2}$ 30 yrs.				
$\frac{1}{2}$ U.S.H.A. @ $2\frac{1}{2}$ 60 yrs.				
Subsidy $3\frac{1}{2}$	5.80	1392	7.73	1855
$2\frac{1}{2}$	6.80	1632	9.06	2175
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Paying $\frac{1}{2}$ taxes	5.60	1344	7.46	1791
Paying full taxes	6.60	1584	8.79	2111

Income groups served is based on normal family of 2 or 3 children using 4 rooms and paying 20% of income for rent.

March 2, 1937

I spoke to the President this morning about the Wagner Housing Bill.

This is the President's formula: in six or seven years he wants us to build a \$1,000,000,000 worth of "slum clearance". He used this phrase rather than low cost housing and he does not want it to cost more than \$35,000,000 a year. I said, Mr. President, this is impossible. 'Well,' he said, 'see if you can't work it out. How have the English done it?'

He was terribly serious about the matter when I showed him that what the Wagner Bill proposed was financially impossible. I told him that if we did what was suggested in the Wagner Bill we would be simply doing what Hoover accused us of doing, namely: setting up a double set of books. Furthermore, that under the Wagner Bill the proposed guaranteed bonds would not be worth the paper they were written on.

PACT PROVIDES CUT IN RAIL WAGE TAX

Tentative Agreement With
Unions Would Reduce Pension
Quota From 3.5% to 2.5%

12/1
WOULD SAVE \$18,600,000

12/1
Plan, to Be Introduced in Bills
in Congress if Ratified, Would
Return \$15,000,000 for 1936

A reduction in the initial payroll tax to be paid by the railroads under the existing railway pension law from 3.5 per cent to 2.5 per cent is contemplated in a tentative agreement between the managements and labor received by railroad officials here yesterday. If enacted into law, the agreement would add more than \$15,000,000 retroactively to the aggregate net income of the railroads last year, increasing it from about \$160,000,000 to more than \$175,000,000.

The present law, which is being contested by the managements in the courts, provides for payroll contributions by the managements amounting to 2 per cent on the first \$50 of monthly wages, 1.5 per cent on the next \$100 and 1 per cent on amounts in excess of \$150. Deduction of these percentages began on March 1, 1936, under the terms of the existing law. The difference between the amounts would be refunded to the companies, under the proposed agreement.

Saving of \$15,000,000

On an annual basis the saving to the managements under the agreement would be about \$15,000,000.

The rate of 2.5 per cent to be paid by the managements, under the agreement, would be applied also to contributions by employee. The payments by both managements and employees would be increased by one-quarter of 1 per cent every three years until a maximum of 3.5 per cent was reached.

If pensions now paid voluntarily by the railroads are larger than the amounts which would accrue under the agreement, the larger amounts would be paid. But it is provided

that, where possible, the costs of existing pension systems would be absorbed in the collections that would be made under the agreement.

The agreement would exempt the managements from liabilities under Title 8 of the Social Security Law, which calls for the payment of old-age pensions.

It is understood that the remainder of the provisions of the agreement would follow those of the existing law. This provides that annuities shall be the sum of the amounts determined by multiplying the total number of years of service, not exceeding thirty years, by the stated percentages. No part of any monthly compensation in excess of \$300 is recognized in computing annuities under the present law.

Other Provisions of Law

Other provisions of the present law require that annuities be paid to employees, without regard to the period of service and whether rendered before or after the enactment of law, who either at enactment or thereafter shall be sixty-five years of age or older; to employees who, either at enactment or thereafter shall be fifty years of age or more and who shall have completed thirty years service, annuities in these cases to be reduced by one-fifteenth for each year the employee may be less than sixty-five years of age at the time of the first payment; and employees who, either before or after the enactment, shall have had thirty years service and who shall after enactment be retired on account of mental or physical disability, the annuity then not being subject to the one-fifteenth deduction.

Bills for the enactment of the proposed agreement are to be introduced into Congress, if it is adopted. The agreement has to be approved by majority vote of the Association of American Railroads and by the unions. The managements are expected to consider the plan at a meeting in Chicago on March 9.

Nearly all the railroads allowed in their 1936 accounts for liabilities under the railway pension law. It is estimated the annual savings under the proposal would be about \$740,000 for the Atchafalaya, Topeka & Santa Fe, \$715,000 for the Baltimore & Ohio, \$414,000 for the Chesapeake & Ohio, \$1,320,000 for the Pennsylvania, \$500,000 for the Union Pacific, \$449,000 for the Missouri Pacific, \$1,570,000 for the New York Central and \$945,000 for the Southern Pacific.

If, as would be expected, payrolls were increased in conformity with the present rising trend of traffic, the savings from the agreement to the managements would be proportionally increased.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 1, 1937

MEMORANDUM OF THE DAY'S ACTIVITIES FOR MARCH 1.

TO Mr. Morgenthau
FROM Mr. Magill

1. Taxation of non-resident aliens.

I have a memorandum from Doctor Gourrich in which he objects strenuously to a tax on the transfer of securities to and from non-resident aliens at a rate of 3 percent, on the grounds of discrimination and the likelihood that the securities business will be driven abroad. He does not address himself at any length to the question of a tax at a lower rate as a means of preventing the inflow of foreign funds, or to the other suggestion that a stock transfer tax on transfers to and from aliens be imposed at a rate equivalent to that imposed on transfers between citizens, but with a power in the President to increase the rate under designated circumstances.

I have also a memorandum from Mr. Burgess, the last paragraph of which is as follows:

"The more one studies this problem the more he is impressed with the desirability of international cooperation in dealing with it. Action on this point might be considered as implementing the tri-partite agreement on currencies. It seems clear also that the investment markets are likely to be a crucial point in the problems of credit control which all the important nations are likely to face in succeeding months. There is much to be said for making this topic a subject of informal exploratory consultations."

Mr. Bryan of the Research Staff of the Federal Reserve Board, has been giving further study to the possibilities of a tax on capital gains realized by non-resident aliens. He thinks such a tax can be worked out in a much simpler form than the plans hitherto suggested. He will discuss his plans further with Mr. Kent and Mr. Green of the SEC. What he works out may be useful in the future even though we do not plan to do anything with it this year.

2. Carriers Taxing Act.

At your suggestion, Mr. Gaston called Mr. Early at 3 P.M., this afternoon, to advise him of the information carried on the ticker regarding the proposed railroad retirement plan. Mr. Gaston told Mr. Early that the Treasury had not approved the legislation and, indeed, would not receive detailed information regarding it for several days.

Carriers Taxing Act
Continued

I finally succeeded in reaching Mr. Latimer about 5 P.M. The substance of my conversation with him appears in the attached memorandum.

United States Chamber of Commerce.

3. Representatives of the Chamber have asked me to speak at their annual meeting on April 27th. Is it worthwhile from the Treasury's point of view for me to do so? If not, I shall decline the invitation.

Rw

Enclosure.

RB

GRAY

London

Dated March 1, 1937

Rec'd 3:45 p. m.

Secretary of State

Washington.

105, March 1, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

London press reports substance of Mr. Landis' remarks in Boston to which the TIMES replies as follows: "recent advices from the United States regarding the influx of foreign capital into America indicate that the United States Treasury is finding the framing of regulations designed to check the movement a matter of considerable difficulty. The concern felt by the President and some of his advisers over 'hot money' is thought by some of those well acquainted with the subject to be needlessly exaggerated. Apparently Washington fears the possibility of conditions arising similar to those which existed in Great Britain in 1931 when heavy withdrawals of foreign owned capital rapidly exhausted this country's gold stocks. But the United States as the holder of about one half of the world's gold stocks is in a position where she could face with equanimity any drain likely to be made by foreign holders

RB

-2-#105, March 1, 6 p. m. from
London

holders of American balances and securities upon her. At the conference of representatives of the United States Treasury and the Banks it has been reported that three courses of action designed to check the 'hot money' movement have been discussed--namely, a tax on foreigners' capital gains, a heavier tax on foreign income derived from American securities and a special tax on transfers. It is known that the application of either of the first two bristles with difficulties and therefore the third possibility because of its simplicity, is considered to be more likely--that is, if the Washington Administration is determined to adopt restrictive measures of some kind. At the present stage any forecast of the kind must be a matter of conjecture but were the transfer tax adopted it would hardly affect securities already in the names of foreign owners. In any case its adoption would in the opinion of the market have no material effect upon the volume of international stock market trading.

Meanwhile it is of interest to refer to certain unforeseen developments that have followed the various regulations of a penal or restrictive nature that have been imposed upon Wall Street by the Roosevelt Administration. For some time past the volume of dealings in London in American securities has been

RB

-3-105, March 1, 6 p. m. from
London

has been steadily growing. Excluding shares such as International Nickel, Brazilian Traction and Canadian Pacific, which, while dealt in in the American market, are not those of American companies and in which the European interest largely predominates, there is a host of shares of companies of United States domicile some of which are mere names to the average British investor in which business is now-a-days transacted freely. Experienced members of the market estimate that more than fifty per cent of the business done today in the American market is on behalf of American investors. Even the not inconsiderable business which is done here on continental--more particularly Amsterdam--account is believed to emanate largely from New York. The main consideration which has diverted the business from Wall Street has been the desire of American operators to escape the capital appreciation tax."

ATHERTON

CSB

March 2, 1937

I gave the President the attached letter in regard to the Railroad Retirement allowances. He only read the first sheet and he said, 'I know all about it. Get hold of Altmeyer and Latimer and Magill and Bell and see if cannot thrash it out in your office and then report back to me.' He made me take back the attached letters and would not keep them.



THE SECRETARY OF THE TREASURY
WASHINGTON

March 1, 1937

My dear Mr. President:

I am sending you a very brief memorandum outlining the tentative agreement which representatives of the railroads and of their employees have reached, without first consulting with the Treasury or the Bureau of the Budget.

Mr. Magill, Mr. Bell and I are very much disturbed, because if the agreement becomes law, the Treasury may find itself between \$700,000,000 and \$800,000,000 out of pocket.

In view of the seriousness of this situation may I suggest that you call a conference at which Mr. Latimer, Mr. Magill, Mr. Bell and myself may be present so that we may take up the whole question of the future policy in regard to railroad retirement allowances.

Faithfully,

The President,
The White House.



THE SECRETARY OF THE TREASURY
WASHINGTON

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March 1, 1937

Confidential

MEMORANDUM FOR THE PRESIDENT:

Mr. Murray Latimer, Chairman of the Railroad Retirement Board, called to see Mr. Magill and Mr. Bell Thursday afternoon, February 25th. He told them that he had an appointment with you for the following morning at which he expected to inform you of the tentative agreement between representatives of the railroads and of the railroad brotherhoods for a new system of railroad retirement allowances. He said he did not expect to go into the details of the agreement with you but merely to advise you that an agreement had been reached.

Mr. Latimer stated that since the tentative agreement had just been reached, he could not submit to the Treasury a detailed statement of the actuarial computations of the allowances which would become payable. He promised to submit a memorandum showing these details to enable the Treasury to determine whether the proposed taxing provisions are adequate to meet the demands upon the Treasury under the proposed new Railroad Retirement Act. Until the Treasury has this information, we can not, of course, advise you whether the tentative agreement would, in fact, necessitate payments out of the general funds beyond the receipts from the proposed taxing act.

Mr. Latimer did, however, advise us that the agreement contemplated that the railroads should not be required to pay over to the Treasury the amounts which they have collected from their employees prior to January 1, 1937 under the present Carriers Taxing Act, nor the amounts

Memorandum for the President 3/1/37 - 2

which are due from the carriers themselves prior to January 1, 1937, under the same Act. The total amount shown in the Budget for 1937 and due under the Carriers Taxing Act is \$134,600,000. Moreover, the tentative agreement provides for total taxes of 5 percent of the railroad payrolls for the next three years, whereas the existing rate of tax totals 7 percent. The proposed tax would not reach 7 percent until January 1, 1949. Mr. Latimer finally stated that his calculations showed that the present worth of the proposed retirement allowances would exceed the present worth of the proposed taxes by at least \$700,000,000, and that it was expected that this excess would have to be met out of the general funds of the Treasury. He contemplates, in fact, that the amount will be made up out of an estimated excess of collections of Social Security taxes (to which the railroad and their employees will not be subjected) over the benefits to be paid under that Act. In other words, the tentative agreement contemplates that other employees subject to the Social Security taxes shall make up this \$700,000,000 difference between the benefits which the railroad employees wish to receive and the taxes which the carriers and their employees wish to pay.

Henry M. ...
March 1st 1937
4.30 P.M.

TREASURY DEPARTMENT

WASHINGTON

March 2, 1937

CONFERENCE AT THE WHITE HOUSE, TUESDAY, MARCH 2,
1937, ON THE WAGNER HOUSING BILL

-oOo-

Those present besides the President were the Secretary of the Treasury, Secretary Ickes, Senator Wagner, Mr. Fahey, Mr. McDonald, Mr. Frederick Delano, Mr. Bell and three people from Senator Wagner's office.

The President started the discussion by saying that he had not been over the Wagner Housing Bill, and had not discussed its financial provisions other than with the Secretary of the Treasury earlier in the day, but that he was quite satisfied in his own mind that this Administration must embark upon a program which would spend, over a period of from four to six years, the total sum of one billion dollars for low-cost housing. He thought that the estimate of \$200,000,000 for 1938 was too high, but that probably after the program was started more than that sum might be spent in later years. He said that the Secretary of the Treasury had raised the question as to where the organization to handle the new housing program would be located. The President's answer to this question was that it might very well be independent until the reorganization bill was approved, after which it should go to the Public Works Department, or the hous-

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ing organization could still operate independently but contract with the Public Works Department for the construction of the projects. He also said that there were experts on housing throughout the Government service, such as those in the Public Works Administration, the Treasury, Federal Housing, etc., who should be used on any program adopted.

The President ~~then~~ said that he had no time to go into the details of the bill but he wanted to suggest that the group go into the cabinet room and there discuss in detail its financing provisions and try to work out a way in which the program could be soundly financed. He announced that Senator Wagner would preside over this meeting. The group then proceeded to the cabinet room.

Senator Wagner started the discussion by saying that he understood that the only feature of the bill to be discussed in this conference was the one of finance and that he would like to hear from the Secretary of the Treasury on that matter.

The Secretary discussed the financial features of the bill, saying that as he understood it, the proposal provided that the Government would eventually contribute one billion dollars of Government funds to construct these housing projects and give them to the community. This being the case he did not see how the United States Government could possibly approve a proposition that would permit the issuance of obligations guaranteed as to both principal and interest by the Government. If these obligations are issued in this

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manner they would not, of course, be added to the public debt of the United States, yet in view of the flimsy security behind them they are issued almost solely on the credit of the United States Government. This might have the effect of throwing some doubt on all of the other guaranteed bonds outstanding. The Secretary produced a statement to show that the United States Government would appropriate a sum of approximately \$35,000,000 a year for a period of sixty years, which would represent interest at $2\frac{1}{2}\%$ on the outstanding obligations and amortization of 1% , a total of $3\frac{1}{2}\%$. The total cost to the Government over the sixty-year period would be approximately two billion dollars.

Senator Wagner ~~then~~ said that he was not so particular about the financing provisions except that he realized that it would be difficult to get an appropriation through Congress each year in the sum of \$200,000,000 or \$250,000,000 which would be required under his bill. He frankly admitted that this means of financing was decided upon in order to facilitate its passage through Congress.

The Secretary ~~then~~ said that he did not believe any agency of the Government could spend \$200,000,000 a year on low-cost housing, and pointed to the fact that Mr. Ickes' organization had had one hundred and fifty million dollars over the past three years for a housing program, all of which is not yet spent. He admitted that many projects were tied up in litigation and thought that might also be the case in this program. Secretary Ickes was rather reluctant to agree that \$200,000,000 could not be spent annually for this program.

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A general discussion then took place, one of Senator Wagner's assistants attempting to explain just how a project would be financed under his proposed bill. After the discussion was over I did not feel that any one had a clear picture of just how the provisions of this bill would operate.

The Secretary ~~then~~ said that what was worrying him was as to how far the United States Government could go in increasing its expenditure program. We are now spending at the rate of about $7\frac{1}{2}$ billion dollars a year and he feels that this ought to be the limit. He also expressed a feeling that any funds to be expended on housing which are in the nature of subsidies, should come directly from the Treasury and be a part of the general budget picture. He thought it might be possible to cut down some other program within the $7\frac{1}{2}$ billion dollar limitation and provide the funds necessary to finance the provisions of the Wagner Housing Bill.

Mr. Delano ~~then~~ spoke up and said that we have been spending, during the past three years, a great deal of money on good roads throughout the country, some of which was under emergency appropriation acts and required no contribution from the States, while the regular annual programs were on a fifty-fifty basis. He wondered why it would not be possible to cut down on the annual road program as we seem to advance quite far in this direction, and provide for some low-cost housing for the city people, letting the rural people, so far as good roads are concerned, go over for a period of four or five years. He

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intimated in his talk that we might even consider putting the housing bill on the same basis as the road bill, having the States contribute 50% of the cost, the funds to be apportioned to the States in approximately the same manner as the good roads funds.

The conference then broke up with the understanding that I would survey the programs laid down in the 1938 budget to see whether or not any of them could be reduced, the aggregate savings from which could be used to finance the provisions of the housing bill.

sub B

March 2, 1937.
10:10 a.m.

140

H.M.Jr: Hello

Secretary
Ickes Hello Henry, how are you?

H.M.Jr: Harold, I was just over to see the President

I: Yes.

H.M.Jr:on the financial aspects of this Wagner Bill.

I: Yes.

H.M.Jr: I think you and I are going to be called over there at 11 to meet with Wagner.

I: Yes.

H.M.Jr: I'd like very much if you could meet me in the Cabinet Room at a quarter of 11 and I'd like to go over our figures and tell you just what I told the President.

I: Henry, I asked yesterday to have an analysis of that bill made for me.

H.M.Jr: Yes.

I: I wish you'd wait until I know something about it.

H.M.Jr: Well here's.....

I: I couldn't this morning anyhow.

H.M.Jr: Well you - you would if the President went and called you at 11.

I: What?

H.M.Jr: If he sent you for 11 to meet with Wagner and himself.

I: Oh well if the President sends for me, of course, I'd drop everything.

H.M.Jr: Well I mean I understand he's sending for both of us.....

I: Oh I see.

H.M.Jr:at 11 and I just wanted a few minutes with you before.

I: Oh, well I'll try to do that then - let me.....

H.M.Jr: Now I've got - hello

I: Yes.

H.M.Jr: I've had a summary made here in 8 hours with Keyserling....

I: Yes.

H.M.Jr: Wagner's Secretary.

I: Yes.

H.M.Jr: And it was made - he's approved of our summary.

I: Yes.

H.M.Jr: Now if you want to, I'll send it over by Special Messenger to you.

I: I wish you would.

H.M.Jr: Ah - it took our boys 8 hours to do it.

I: Yes.

H.M.Jr: But Keyserling - you know who he is - Wagner's Secretary....

I: Oh yes, yes, I know.

H.M.Jr: He - he dictated this thing.

I: Yes.

H.M.Jr: And he - I mean there's no argument about what's in it.

I: Well all right.

H.M.Jr: Supposing I send it over to you quickly.

I: All right, send it right over.

H.M.Jr: And do you want to meet with me for a few minutes before.....

I: I'll try my best to. I've got some people in there now by appointment if I can get through in time.

H.M.Jr: Well I - will you let me know?

I: Yes, I'll let you know.

H.M.Jr: O.K.

I: All right.

March 2, 1937.
10:20 a.m.

Hello.

H.M.Jr: Mr. Altmeyer.

Yes.

H.M.Jr: Henry Morgenthau, Jr.

A: Yes, how are you?

H.M.Jr: I'm all right. Mr. Altmeyer, I've just seen the President about this railroad retirement thing, see?

A: Yes.

H.M.Jr: And he asked me to get in touch with you and Mr. Latimer and ask you whether you could come over to the Treasury and sit down with Magill, Bell and myself.

A: Sure, be glad to.

H.M.Jr: And see if we can't thrash this thing out and then report back to him.

A: All right. I understand that Latimer is sick to-day.

H.M.Jr: Yes.

A: I'll call his house to see if he will be able to get up this afternoon or di - would you rather - would you be willing to wait till tomorrow?

H.M.Jr: Well - ah - if a man's sick I will but I've got a tough day tomorrow and I'm free this afternoon.

A: All right, I'll call him out at his house to see how bad off he is.

H.M.Jr: Well the that would be best for me would be 3:15.

A: 3:15.

H.M.Jr: Could you let me know in the next ten minutes?

A: I'll let you know right away.

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H.M.Jr: And then I wanted to give you this - I don't know whether you saw the story in the Wall Street Journal or not.

A: No.

H.M.Jr: Well it's on the left hand front column and I'm fearful of the effect this story will have, see?

A: Ah-ha.

H.M.Jr: And what I'd like to do if it was agreeable to you two gentlemen would be, if you decided to come - let us know that you were coming to the Treasury, see?

A: Yes.

H.M.Jr: But I wouldn't do that unless it was agreeable to you and Latimer.

A: Yes.

H.M.Jr: See?

A: I'll get ahold of Latimer right away and call you back.

H.M.Jr: Because I mean I'm terri - ask somebody to get you the Wall Street Journal - front page, first column on the left hand side.

A: All right.

H.M.Jr: All right, thank you.

March 2, 1937.
10:29 a.m.

Operator: Go ahead

H.M.Jr: Hello - hello

Altmeyer: Hello.

H.M.Jr: Yes.

A: I just talked with Latimer.

H.M.Jr: Yes.

A: He's in bed but he says that if - if you consider it important to meet to-day he'll come down and be there at 3:15.

H.M.Jr: Well do you mind - well what's the matter with him?

A: Well he's got a heavy cold. He talked in a muffled tone but he says he thinks he can make it and he hopes he won't infect the rest of the people.

H.M.Jr: Well (aside - Latimer)

A: Hello

H.M.Jr: Well I was just thinking - what do you think. I don't - I don't want to be responsible for a man getting pneumonia.

A: Oh I don't think it's as bad as that. He said he - it was a heavy cold and he thought if he stayed in bed to-day he might be able to shake it off but if you think it's important I'm sure that he'll - he would want to come down. In fact I have already arranged for him to come down at 3:15.

H.M.Jr: Well you see the report that Bell gives me that as far as the Treasury is concerned it means it would involve seven or eight hundred million dollars.

A: Well eventually it might run up to - as I recall - around 600 million as the - depends upon how he estimated - it may be 300 million and it may be 600 million.

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- H.M.Jr: Well - I - I - I - after all I don't know Latimer.....
- A: Yes.
- H.M.Jr:and the feeling that we have here is that they're holding out on us.
- A: Ah-ha.
- H.M.Jr: But we haven't got the facts and we can't get the facts.
- A: Well all I - all we know about it over here is that Latimer submitted a memorandum to the Board and, from a Social Security standpoint, we think it's a sound proposition but we didn't go into the fiscal end of it at all.
- H.M.Jr: Yes.
- A: And Danny mentioned about the rate of interest and that sort of thing - none of that did we consider.
- H.M.Jr: Yes.
- A: And I think it is important that the whole thing be thrashed out.....
- H.M.Jr: Well Social Security - if you're going to start remitting one percent to special groups where are we going to end?
- A: What - what did you say?
- H.M.Jr: If you're going to give back rebates of one percent.
- A: Well there's no rebate - we - we made it clear in our memorandum in reply to Latimer's that they'd have to consider themselves an integral part of the Social Security program.
- H.M.Jr: Yes.
- A: Now that is they couldn't in one branch ask to have the protection of the Social Security system and in the next breath ask to have a separate set-up.

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H.M.Jr: Well that - that's the point.

A: Yes.

H.M.Jr: I really think it is terribly important from both your standpoint and ours and Bell and Magill are very much exercised over it.

A: Ah-ha.

H.M.Jr: So if he's well enough let's have it.

A: All right.

H.M.Jr: Now what about letting the people know you're coming?

A: That's O.K. anyway you want to announce it.

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

A: Yes.

H.M.Jr: Well thank you very much.

A: All right.

H.M.Jr: Thank you.

A: Goodbye.

March 2, 1937.
2:53 p.m.

H.M.Jr: Hello

Hello

H.M.Jr: Woodring?

Woodring
H.M.Jr: Yes.

H.M.Jr: Henry Morgenthau.

W: Say, I've - I've gone over all that correspondence.....

H.M.Jr: Yes.

W:and I find that all of our technical advisers over here are against letting you have that No. 5. It's right at the north gate and we have plans for expansion of our own housing facilities.

H.M.Jr: Ah-ha.

W: And they - they have - I think you turned down all but No. 5 and No. 8 at one time and they have agreed on No. 8 which is on the railroad and the waterfront.

H.M.Jr: Well - ah - ah I remember there was something the matter with the footings there, weren't there?

W: No, the thing was that I think I - you had some \$600,000 appropriated and you claimed that the highway - roads - that you would have to have an overpass would cost \$70,000 which would run your bill up to \$670.

H.M.Jr: Yes.

W: Well now the highway thing I think can be eliminated through our channels because we're building some new roads right down to the approach.

H.M.Jr: Well who is - who has it in charge for you?

W: What is it?

H.M.Jr: Who could Admiral Peoples talk to over there?

W: Well I think he'd better talk to me and to General Craig.

H.M.Jr: Talk to you direct?

W: Yes.

H.M.Jr: I'll - I'll have him ask for an appointment to see you.

W: Alright.

H.M.Jr: How's that?

W: And I'll tell you. This - ah - when you started out we would never have given you or let you inspect the No. 5 site only on the impression that it was 200 by - 250 x 300 feet.

H.M.Jr: Yes.

W: Now they say they need ten acres and, of course, out at Fort Knox our ten acres - its developed into 112 acres because you find, which I imagine will be true up there, that you have to have housing for your men and your employees and all. On this No. 8 site, Henry,.....

H.M.Jr: Yes.

W:if you - if you - you can have all the acreage you want....

H.M.Jr: Yes.

W: And plenty of room for housing and its on a highway.

H.M.Jr: Yes.

W: A bi-pass to a highway that wouldn't interfere with any traffic.

H.M.Jr: O.K.

W: I think it will work out all right.

H.M.Jr: Well I'll tell my boys to get in touch with you direct.

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W: All right.

H.M.Jr: And...

W: We'll - we'll try and work it out I think satisfactory to you.

H.M.Jr: Well thanks very much.

W: Goodbye.

H.M.Jr : Thank you.

MEETING ON RAILROAD RETIREMENT

March 2, 1937
3:10 P.M.

Present: Mr. Magill
Mr. Oliphant
Mr. Bell
Mr. Gaston
Mr. Murray Latimer
Mr. Arthur J. Altmeyer

H.M.Jr: If you (Magill) will tell your tale of woe....

Magill: Well, we were disturbed by this announcement coming out as it did on the ticker yesterday to the effect that there had been this tentative agreement between the railroads and the employees respecting railroad retirement allowances. Did you (Latimer) see the announcement?

Latimer: This morning?

Magill: Well, the same came out this morning - the same thing.

H.M.Jr: I draw Mr. Altmeyer's attention to the story in the Wall Street Journal.

Magill: Yes. Similar story in the Times.

It was stated, I think, more or less as an accomplished fact that the railroad executives were being called in on March 9th to agree to this proposed plan, which provided for lower taxes upon the employees and the carriers, so that consequently the railroads would be able to show an increase in their earnings during 1936, since they had included on their books charges for these protective payments under the present tax, which payments would not now have to be made.

Well, our difficulty about it came in this fashion. About the first of February, it was agreed that the Carriers Taxing Act, carrying the provision for a total tax of seven percent on the payrolls, should be extended for a period of at least a year. The Act would normally have expired on February 28th. When we went up before the Committee, Mr. Latimer

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informed the Committee that the carriers and the railroad employees were then engaged in negotiations under his general supervision looking toward an agreement upon a new retirement scheme.

There were two points, as I understood it from that, as matters stood at that time. First, that this agreement contemplated the payment to the Treasury of the amounts which were due under the existing Carriers Taxing Act and which we were trying to get extended - those amounts totaled about 135 millions of dollars - and the dismissal of the injunction suit which the railroads had brought, and which tie-up prevented our collecting under the tax for the time being. And then, secondly, that the retiring allowances which were being negotiated would be of such an amount that the tax would carry the allowances. And it was contemplated, as I understood it - as I read the history of the thing, the reason why the Carriers Taxing Act had been given an expiration date of February 28, 1937, was because no one felt sure of exactly how much money would be required to carry the allowance. Mr. Eastman, I believe, testified - Mr. Latimer testified that the necessary amount would be somewhere between seven and something over ten percent of the payrolls. So the rate of tax was fixed in the Act at seven percent.

Well then, on the basis of this assurance from Mr. Latimer and our request - the President's request that the Act be extended, the Ways and Means Committee went ahead, and the Senate went ahead - the House and Senate went ahead and extended the Act and the President signed it on February 27th, I believe.

H.M.Jr: Well, I think - if you don't mind, I think you're a little modest; I think the Treasury carried the entire ball on getting it extended.

Magill: Well, we did; we did.

H.M.Jr: We carried the entire responsibility in getting it, as I say.

Magill: Well then, at about this time - I hadn't heard anything further of these negotiations, so I called up

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Mr. Latimer to ascertain how the negotiations were coming along, and particularly asked you (Latimer) about this 140 million or 135 million; and then discovered for the first time, to my considerable alarm, that the railroads and the employees had just decided that they wouldn't pay this 140 million to the Treasury which is due under the law that is now on the books, and that furthermore this retirement plan had been devised with a lower rate of tax than that at present in existence, only rising to the present rate of tax in 1949; and further that in any event the allowances to be made would exceed by nearly a hundred percent, as I understand it, the taxes to be paid. That is, as I understood your calculations, that the present value of the taxes which are to be collected were - well, to put it the other way, the present value of the allowances to be paid exceed the present value of the tax to be collected by something like 700 million.

Latimer: Oh no, no.

Magill: I think the way you put it, that if the railroad employees had stayed under the Social Security Act, they would have paid 800 million in present worth and would have received a billion and a half in present worth.

Latimer: Yes

Magill: And that the idea of the new Act was to preserve that as a differential.

Latimer: No, not that same one.

Magill: Of course, there again, you see, we are in trouble, because we have never seen any of the actuarial computations under the thing at all. We haven't the remotest idea whether the tax will carry the allowance, or whether we'll have something left over, or whether we'll be in the hole. We know we'll lose 135 million - or rather, a hundred million, about. We don't know how much more we'll lose.

And what bothers us about the whole situation is that we are obviously put on the spot. Here we've got a taxing act which we've put through; it's on the books.

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Now the railroads come out with - or somebody comes out with great gusto and announces a new plan which is a gift to the railroads of a hundred million. And presumably we are going to be chasing down to Congress presently with a completely different taxing act and saying, "Well, boys, what we asked you to do a month ago - just erase that. We were misinformed, and we really don't want to tax them that much. You just tax them a little less and the - everybody will be happier and the Treasury will pay the difference."

Latimer: When I made the statement which I did in the House Ways and Means Committee, that the taxes were to be seven percent and were to begin on March first, and the injunction suit was to be dismissed, I was merely stating what had been the agreement arrived at by a sub-committee.

Now, there happen to be three different groups: the railroad labor organizations as a whole, the carriers as a whole, and they appointed sub-committees - I mean a committee, consisting of presidents on each side. And then that committee appointed a technical sub-committee, which sub-committee I've been working with.

All the figures supplied by us..... Of course, our function was a purely technical one. We were instructed by the presidents, on the basis of the actuarial calculations, to submit to them the cost of any particular plan they put up to us. And up until the last stages, nothing at all had been said about any different - about any tax less than seven, although some conversations had evolved around, not whether the tax was to be less than seven but whether it was to be more. And the sub-committee had spent most of its time trying to cut out benefits in order to get it to the point where a tax of seven percent would furnish support.

And it was only when the presidents' committee - that is, when the sub-committee reported back to the presidents themselves - there were six railroad presidents - the presidents and the carriers' committee, they were the gentlemen who got out their chisels.

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And if I remember correctly, I called you (Magill) because you were attempting to preserve the seven percent tax rate. One of the main reasons that I called you was to attempt to get you to bolster us up in trying to keep a seven percent tax rate.

H.M.Jr: Pardon me - you mean you called Magill?

Latimer: Yes.

Magill: I don't - I don't remember that.

Latimer: Well, I didn't tell you what I wanted, but... I don't know whether you wanted to collect any more tax than that or not, but we were - we think now that the benefits have been scaled to a low point.

Altmeyer: You mean the benefits or the tax?

Latimer: No, the benefits.

H.M.Jr: May I just make this comment? But is it a fair criticism that possibly you weren't sufficiently frank with us? You - with us?

Latimer: Well, maybe I wasn't, but I didn't know what attitude you were going to take on it. And what I called up Mr. Magill for was to tell him that it was agreed I would give a memorandum which would set forth completely as I knew how the whole situation.

H.M.Jr: Well, you've never worked with us, or we with you, but I can tell you this, that you can call up the Treasury any time and we'll always tell you where we stand.

Magill: I think you (Latimer) are wrong on your chronology. You remember you came over here and talked to Oliphant and myself one afternoon, and I'm not sure precisely what the date of that was but I think it was Wednesday afternoon last week; and you discussed with us two or three other problems, but not - there did not come up in that conversation, I am sure, anything with respect to the effective date of this tax.

Latimer: No, it didn't.

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Magill: What came up in that conversation was two or three questions: the question of charging part of these retirement allowances against the general funds of the Treasury or against the reserve account under the Social Security Act; the question of whether or not the administration of the tax ought to be under the same board which is to pay the benefits; and then, further, the question of the rate of interest to be allowed on the tax payments.

Latimer: Yes, that's right.

Magill: I should have asked you at that time about the tax, but I didn't, and I didn't know - I simply assumed that since you had made the statement before the Ways and Means Committee, and of course we proceeded on that theory, that the tax would continue in effect at this rate. I assumed it was going to continue in effect. But the next day I got worried about it and I called you up to ask what had happened to the 135 million, and then learned that it had gone out the window somewhere in the meantime.

Latimer: Well, of course, we weren't - we were in this position. We had been instructed to make - to tell the conferees what these things would cost. They had gotten final scale benefits which, as best we could calculate, cost something under seven percent - $6\frac{7}{8}$, or something like that. Then they asked us to calculate the cost beginning March 1, 1936, or beginning January 1, 1937. Beginning March 1, 1936, the cost of the Act - it approximately was 1.5 percent less beginning January 1, 1937. I admit that perhaps I should have told you, but there was no intent at all to try to conceal it. As a matter of fact, I never thought of it. I had thought of your whole - that you would have a month in which to do this, and assuming that before anything would come up - I never anticipated the pressure that would be put on. I never thought that, sitting in conference last Friday, there would be this effort to make the President - make out the President had committed the Administration, which he hasn't done. So that I took it for granted that you'd have a month to make the study of the thing. Now, that's all from me.

H.M.Jr: Well, haven't I heard, Ros, that the thing you are

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particularly fearful of at this stage is that these letters are going out to 150-odd railroad people?

Magill: Yes, what bothered us is that these railroad fellows are going to meet on March 9th and I assume agree - they are going to get the understanding, as you said, that this has at least the Administration blessing, whether it has Administration approval in so many words or not.

But suppose that not a word was said about the Administration, that this was simply dressed up as a private agreement, which I think is not realistic at all. But suppose not a word was said about the Administration. The 149 railroads, or whatever it is, and employees come down then with an accomplished fact - "This is an agreement which we have now entered into. This is what we want."

Oliphant: "And which you knew about and didn't say anything."

Magill: "And which you, Uncle Sam, knew about" - as I understand from my conversation with you (Latimer).

Oliphant: "Which you, Uncle Sam, knew about and didn't say anything."

Magill: Now, suppose the Treasury goes to the Ways and Means Committee, as it has to, with some form of taxing act on this matter, and we say, "Well, we ask you now to repeal this Act which is now on the books and which we have budgeted at 135 million."

"Well, what's that going to cost the United States?"

"Well, that's going to cost us a hundred million" etc.

Well then, suppose the Ways and Means Committee asks us and we say, "We think that this tax ought to stay on the books just the way it is now. That's why we came to you in February, because we thought so."

Well then, look where we land with respect to the railroads and the railroad employees. In other words, it is obvious, if you look at it from my eyes, that we are clearly being high-pressured here. Now, who's

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doing it doesn't concern me so much as the fact that it's being done. The net result is that, whichever horn of the dilemma we take, whether we agree with the railroads, with this railroad agreement, or whether we disagree with it - in either case we are put in a very unpleasant position. And the reason we are put in the position is because we didn't know a darn thing about it until it was virtually an accomplished fact, that's all.

- Bell: Did the President approve this program the other day at the conference?
- Latimer: The President wasn't even told about the details of the program.
- H.M.Jr: I spoke to him about this this morning, and the President gave me distinctly to understand that he is not committed in any way.
- Latimer: I mean he couldn't possibly have been, because he very definitely wanted to steer away from it.
- H.M.Jr: And he suggested this meeting, and that we then give him a memorandum, if we could come to an agreement, as to what policy we recommend to him that the Administration follow. That's the purpose of this meeting.
- Altmeyer: I knew nothing about the details either.
- Latimer: Well, the details weren't settled until late Thursday night before they went over to the President, and one reason why - I think I'm derelict in not having told something in general, but the situation changed so from day to day that I didn't know what precisely to tell you as to what they were having in mind, because the next day I'd have to come back and say there was something else.
- H.M.Jr: Well, Mr. Latimer, could you at this time make a statement to us which we might or might not subscribe to, or which we might say is the policy and that we are all in agreement, and then send it over to the President?

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Latimer: Well, I think you need more time, Mr. Secretary.

H.M.Jr: Yes, but - but this thing has gone out. I asked Mr. Altmeyer if he would object to asking you to say - tell the newspapers we were having this meeting, just to show that we had our doubts. Unquestionably after this meeting they will ask us. I'd like to say something, if just to..... I think if the Administration doesn't follow what these railroad people want, we are in a very tough spot, and I think....

Latimer: I'd like to say this about it....

H.M.Jr: I mean how would you sum up? Can you sum up for me what is the situation? First, what is the situation today as far as you're concerned?

Latimer: Well, the situation as far as we're concerned is that we've done the technical part of the negotiations, without attempting to influence considerably one way or another what was wanted by the negotiators, and that I intended to put up to you the sum total of the negotiations which had been reached.

Oliphant: May I ask....

Latimer: And to make some recommendation about it. Now, as I said, we hadn't anticipated that there would be such pressure on this, and I thought there would be an opportunity for the Government to decide on this matter of policy. Since it has not now, I think that this statement might be reiterated which I made to Mr. Pelley and Mr. Harrison the other day. I said that I was sure they understood that the Treasury and other agencies were involved in this matter and that the whole thing would be submitted to the Treasury and the Treasury might have some suggestions. I asked them, "If those suggestions might involve more or less taxes and certain other changes in legislation - I don't know what else they might suggest about it - will that in any way upset your agreement?" I said, "Will you make it clear that these agreements between the principals - that these agreements are subject to that?" They said they would.

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- H.M.Jr: Do I understand that you are a party to these agreements?
- Latimer: I said I was just telling them that the agreements which they - made it clear that they understood that neither the President nor anybody else from the Government had committed themselves to go along; that it would be specifically subject to review by the Treasury and that the Treasury would have any number of suggestions to make about it.
- H.M.Jr: Well, if you don't mind, the point that I get is that these people, the railway owners and the railway unions, came to an agreement on this thing and you left them with the impression that they could submit it to their members and then come back and that, while the Treasury might object, the Railway Retirement Board would look on it favorably.
- Latimer: No, sir.
- H.M.Jr: Huh?
- Latimer: We said that this was committed subject to the Government, and that whatever - as far as technical matters, Railway Retirement Board was satisfied, but they understood that we hadn't any power to commit the President.
- H.M.Jr: Yes, but the Railway Retirement Board is satisfied with it?
- Latimer: I think we can say that we are satisfied.
- Altmeyer: Are you satisfied with the agreement in its present form, with the two and a half instead of the three and a half rate?
- Latimer: Those taxes will support the benefits given in this other matter, yes. I say we are satisfied; we are satisfied technically because we believe that the taxes, revenue, and outgo will be in balance. But we aren't satisfied with the substantive provisions of it. But there is nothing - we have no right to step into the negotiations and tell them they must do so and so. Even though we don't like it, it is not for us to....

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- Altmeyer: Well, what about the 1936 taxes? Satisfied about that, too, that they shall be forgiven?
- Latimer: Well, the taxes that are here now, beginning on January 1, 1937, are sufficient for the outgo.
- Bell: At all times, right from the beginning?
- Latimer: Oh yes. I say with this adjustment...
- Bell: You mean between the Old Age Reserve Account.....
- Latimer: With this adjustment: It will be sufficient at all times if you grant us that three percent interest. You haven't granted us the three percent interest yet, but it is clearly understood that if the fund doesn't earn three percent - that is another matter; they know also that that is another matter, which is something over which the conferees - something on which we have asked advice, over which we can't commit the Government.
- H.M.Jr: Well, may I ask Mr. Altmeyer a matter of policy? I mean frankly I'm learning as I'm going along, because I just haven't had time to give it the preparation that I give to these things, because things have been happening so fast the last couple days. We've had this housing matter, you know.
- The thing - talking here - I think I can express my point - the thing that worries us the most, and I worried if it didn't worry you (Magill), is that at this stage, where we are just beginning, one month, two months under way, if we begin to give special groups special treatment - that's the thing that worries us.
- Altmeyer: Of course, when the Social Security Act was enacted, the railroads were under it and it was in balance with the railroads under it. And then a week or two weeks afterwards the railroads went out. So that really you could say that it threw the Social Security balance off. Is that right, Mr. Latimer?
- Latimer: Yes, but I think there is a more fundamental question that the Secretary is raising about that: as to whether in any event there ought to be any special

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fund, no matter what kind of treatment is given.

Altmeyer: Now, getting the railroads back in, so to speak, puts the Social Security Act back to where it was when it was originally enacted, as far as the self-sustaining features are concerned. Now, what we are concerned about is that any change made now shall be in accordance with fundamental principles that can be applied to any industry affected with a national interest.

H.M.Jr: Now - well, we - (to Magill) can I say that....

Magill: Oh sure.

H.M.Jr:that we are in complete accord?

Magill: Complete accord.

H.M.Jr: We are not for the moment worrying about whether it is 47 million dollars or 57 or 157. What we are worrying about is, I think - if I'm going too fast, tell me - is that here's the first thing that comes up and the railroads - if the railroads can do this thing, why, then the coal miners can do it and the automobile manufacturers can do it, and so forth and so on, and what's going to happen to your (Altmeyer) organization.

Latimer: An attempt has been made to guard against that very thing in an exchange of letters.

Altmeyer: We exchanged letters trying to safeguard the thing for the long time future, and I have just filed with you this exchange. Now, that's the only thing.

Bell: Well, how can you safeguard this? Just say it isn't a precedent; how can you safeguard it against a thing of that kind if another group wanted to bring pressure to bear?

Latimer: If you've got pressure - sufficient pressure, you can't.

Altmeyer: Now this, Mr. Secretary, was in answer to a letter that the Railroad Retirement Board brought up.

Latimer: At the direction of the President. We talked to the President

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about this. He said, "Get the views of the Social Security Board on the matter." That's how the letters came to be written.

Altmeyer: And those were our views.

Latimer: These, by the way, are reported in my memorandum to you (Magill).

Magill: Oh, that I'm going to get tomorrow.

Latimer: Yes.

Altmeyer: So we know nothing about the details of this at all. The first I knew about any of the details was when I read over the bill this morning that I sent for from Latimer's office. Of course, I read this Wall Street Journal article, and then I ran down the bills.

Latimer: You have the agreement here.

Magill: Yes, I've got the agreement.

H.M.Jr: Yes, but this correspondence has never been here before.

Magill: No.

Latimer: The President, in his letter to both sides, committed himself to a separate - committed himself to a special railroad retirement act, or some form of special treatment for the railroads. I don't think it was a special retirement act.

Altmeyer: All that I understand he committed himself to - remember I made the statement of what our position was, that we felt the Social Security Act, if it was to be social, should give the protection to industry generally, including the railroad industry, and that if the railroad industry had an undue proportion of the aged, they should have the protection of the whole system nevertheless; that if they wanted to receive higher benefits but under the Social Security Act, those higher benefits should be superimposed upon the benefits under the Social Security Act and should be fully self-sustaining. And we

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felt that that was a sound principle for the railroad industry or any other industry.

- Latimer: Well, that particular principle has been adhered to here.
- Altmeyer: And I think that is the only thing the President committed himself to.
- Latimer: Well, the President didn't commit himself to whether there would or would not be a legislative scheme in addition to the Social Security Act, and the carriers themselves understood the President's scheme to give them authority to arrive at an agreement, and understood that if they did arrive at an agreement, or private agreement, that the President's letter had bound him to ask for an exemption of railroads entirely from Social Security. That is what they understood.
- Altmeyer: What was that?
- Latimer: I said that the carriers understood the letter to mean that if they and their employees arrived at a private agreement about a retirement insurance system, the President would ask for exemption of the railroads from the Social Security Act without any legislation at all.
- Oliphant: Even though it was going to cost more money?
- Latimer: Well, irrespective of cost, if the railroads and employees agree on a retirement system, the President would go along with them going out of the Social Security Act entirely, even though that agreement was not a legislative agreement but a private agreement.
- H.M.Jr: Is there anything in writing between the President and railroads and railroad unions?
- Latimer: Yes, I have that.
- H.M.Jr: Have we got that?
- Latimer: That was published in the press.

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Magill: No, not here.

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

Altmeyer: No.

H.M.Jr: I think an important thing like this, involving hundreds of millions of dollars - it does seem that the Social Security and Treasury should be kept informed. Doesn't that look like a reasonable request?

Bell: I can't help but believe that the Social Security set-up was in balance when the railroad employees were under it. Now that they go out, by reason of the fact that they go out, that throws the Social Security Act out of balance; they have more revenue than they need. There ought to be a reduction in taxes for those that - other classes of employees taxed, and that thrown over into the railroad tax. I can't arrive at any other conclusion.

Latimer: I don't seem to have brought a copy of that letter with me.

Well, do you think the reverse ought to be true, Mr. Bell?

Bell: Well, I think that if you are taxing the other classes of employees to pay higher benefits to the railroad....

Latimer: No, no, we weren't doing that. All you were taxing...

Bell: That's the effect of it.

Latimer: No; no, sir.

H.M.Jr: That's the way it looks to us. Why should other employees pay a higher rate in order that the railroad people get special treatment.

Latimer: They aren't doing it.

H.M.Jr: That's the way it looks to the Treasury.

Latimer: What they are doing... Let's suppose that the

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railroads were under the Social Security Act and the tax is a little higher than otherwise it would be, if the railroads were not there; now, if the railroads made an agreement on the side with their employees to make benefits supplemental to the Social Security Act, the railroads would get all the benefits which have been contemplated under this exchange of correspondence here, and they would of course under that reciprocal scheme have to pay for the full amount of benefits. They'd have to pay for the full amount of the supplemental benefits, precisely as they are doing here. That is, what is paid for by the other employees is only the extra part up to the level of the Social Security benefits. The difference between the total amount paid under Social Security and that other Railroad Retirement Act is paid in full by the railroads and employees.

H.M.Jr: Just as I say, I'm starting from zero, but I - I've got - I want somebody to tell me why the railroads shouldn't be under Social Security.

Altmeyer: Well, as I understood it, they were to be brought under Social Security, but since they wanted higher benefits they would have to finance those higher benefits on a completely self-sustaining basis. They would get the advantage of the basic Social Security program by reason of the fact that they happen to have a disproportionate number of the aged, but that is - that isn't the same as saying that the rest of industry - that is what we mean by social security: that industry generally will take care of the aged workers; that we don't undertake to bring about an exact balance between separate industries or between separate establishments within industries.

H.M.Jr: Well, you don't know an awful lot more about this than....

Altmeyer: I don't know anything about the details of this.

H.M.Jr: Well, you should, certainly. Just take it for granted that the poor Treasury is always dumb. But I mean at least you've got to administrate this thing, know something about it.

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Altmeyer: I think of course from the practical standpoint the important thing is to maintain it at the seven percent. I don't think you ever would get more than seven percent out of the railroad industry. I mean once we gave up a year and a half ago and accepted a seven percent rate, I think we were licked.

H.M.Jr: Right.

Altmeyer: Then as far as getting more than seven percent....

H.M.Jr: Well, this theory of leaving out the Pennsylvania Railroad crowd because they pay their workers more just hasn't happened.

Altmeyer: Well, it so happens, as I understood, that the seven percent rate and giving them the advantage of the over-all protection of the Social Security Act would put their system in balance for all time.

Latimer: It would do a little more than that, because after we've gotten those, then they'd take out some more benefits.

H.M.Jr: But this isn't what is happening today in this agreement which they've sent out to their members. It would pay the workers now much, six percent?

Magill: No, five.

Latimer: Five going up to seven percent, which is equivalent to 6.60 percent of the payroll.

H.M.Jr: Well, could I say this? Could I say this? I mean I want to be as fair....

(Gaston comes in)

Mr. Latimer, Mr. Gaston.

Can I say this? - that we simply haven't had time to study this matter, and it certainly - I don't know whether you (Altmeyer) want to say something to the effect that as far as the Social Security and the Treasury is concerned, that we still haven't got all the facts.

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- Altmeyer: Yes, I think we should make it clear that the Administration is not underwriting any specific agreement.
- H.M.Jr: Now, if you (Latimer) want to include yourself in that - I mean I hate to wash dirty linen of the Administration in public; I'd like to seem as nearly unanimous as possible.
- Latimer: Well, I made - I thought I made it clear Saturday morning. If you notice, the Wall Street Journal yesterday called me up and I said there had been nothing written on the benefits and that there had been no agreement.
- Altmeyer: Are these bills broadcast now?
- Latimer: No.
- Altmeyer: Well, how did the Wall Street Journal....
- Bell: Talks all the way through about a bill.
- Latimer: Pardon?
- Bell: The article, I say, referred to a bill.
- H.M.Jr: Well, how would you put it if Mr. Gaston - what can Mr. Gaston say for me?
- Altmeyer: There's no question that we know nothing about the details of any specific proposals and can't underwrite any specific proposal.
- H.M.Jr: Of course.
- Latimer: I was wondering if somebody shouldn't communicate directly to persons who are responsible for both sides of the negotiations and have it made clear that when these meetings were in progress there were a great many details, and the whole principle, if you want to go that far....
- Magill: It's more than details. It's a five percent or a seven percent rate for the next twelve years, among other things.

- Bell: And a hundred million dollars.
- Magill: And a hundred million dollars due now.
- Bell: In '37.
- H.M.Jr: Well, I thought Mr. Altmeyer would come in and say, of course, he knew all about this thing and the Treasury, of course, was just asleep at the switch, seeing it was a railroad matter, but I find - and I think I might say you're in the same boat we are.
- Altmeyer: We know nothing about the details. In fact, I didn't know the details had been agreed upon the day that...
- Latimer: It was only on Saturday afternoon that I saw this stuff.
- H.M.Jr: Yes, but this stuff is - I mean I've been around town long enough; this is a matter of public relations and that's why I've asked Mr. Gaston to come. You fellows have seen fit to give it out to the newspapers and they begin to work up this thing, and the more time they have the more backing they get, and they get all the railroad men all excited and then the Treasury is just a bunch of double-crossers and we've locked this thing. And I - frankly, I'm sick and tired of this and I'm not going to stand for it. I'm just not going to have people in that position - that we are the people who take the money out of the mouths of the railroad men. I'm not going to stand for that sort of thing and have them all say, "If it wasn't for that god damn Treasury we wouldn't have to pay five percent."
- Oliphant: Isn't it fair to say that, beginning Saturday, as far as the negotiators know, all those documents were in the possession of the Federal Government? As far as the outside, they can't distinguish between the Treasury and Railroad Retirement. As I understand, you (Latimer) had all these documents.
- Latimer: Well, I gave Mr. Magill a copy of the agreement the first day I had it.

Magill: I got it - Bell and I got it together Thursday afternoon.

Bell: Friday evening - no, Thursday evening.

Magill: Thursday evening.

Gaston: It came to you, Mr. Latimer, as the Chairman of the Railroad Retirement Board?

Latimer: Yes.

Gaston: You still occupy that, do you?

Latimer: Yes.

Gaston: And what shall we say? How does it come - through noticing the paper stories or through Mr. Latimer having brought it to the attention of the Treasury?

H.M.Jr: How about it, Ros?

Magill: Well....

Bell: I'd like to see it put on the railroads that they are the ones - that they are trying to work this up.

Magill: I think that's really where it belongs.

Bell: Now the Government is just beginning to study it.

H.M.Jr: Well, the first it's come to our attention was yesterday on the Dow-Jones ticker.

Gaston: And you got in touch with Mr. Latimer, who would naturally be expected to know what's going on.

H.M.Jr: No, I got in touch with the President of the United States and the President suggested we have this meeting here this afternoon.

Gaston: Shall we admit to them that we have some of these documents prepared, an outline of the plan?

Magill: No, the whole story is this. Let me tell it to you this way. As far as this part is concerned, I called

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Mr. Latimer Thursday and inquired what had happened, because I had previously understood that the Treasury was to be protected, that the Carriers Taxing Act which the President had signed on Saturday was to be in effect at that rate from March 1, 1936; and we have in the budget 135 million dollars from that source for the current year which I had understood we were going to get under the agreement. Now, Mr. Latimer said no, we weren't to get this, that the railroad executives had decided they didn't want to pay it after all, and so they had agreed with the employees that they shouldn't.

Gaston: That is a new Act that's just signed.

H.M. Jr: Extension.

Gaston: Extension of it.

Latimer: As they've now got it, it isn't even that.

Magill: I may say parenthetically there is a nice question there that you (Oliphant) may appreciate. If they go repealing this old Act, putting in a new Act, I would like to bet a nickel that it will not be effective from January 1, 1937. Will you join me in another nickel?

Oliphant: I'll bet a dollar on it at least.

Magill: I don't have any doubt it will be effective as of the date it is passed.

Bell: And not retroactive?

Magill: No.

Bell: It's an excise tax.

Magill: Well, very doubtful.

Bell: It could be made that.

Magill: Well, anyway, Thursday afternoon Mr. Bell and I had a conference with Mr. Latimer and our specific understanding was that we'd get a memorandum which would outline the details of this proposal, including the

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actuarial computations, so that we could make our own study of it to see how we were going to come out on the thing. And we have discussed this afternoon about one or two of the questions of policy; there are actually six involved in which we are interested and which we wanted to go into. And it was understood that everybody would be informed and that there was no commitment by anybody, that it was still in the tentative stage.

Well, there was a conference with the President Friday morning between railroads and the employees and Mr. Latimer, I guess it was.

Latimer: And Mr. Altmeyer.

Magill: And Mr. Altmeyer. And the next thing we know about it is this ticker report, which certainly gives the impression that it is an accomplished fact that it has Governmental endorsement.

Now, we still don't have - we still have no memorandum of the details of the plan, so we still are entirely unable to calculate how we would come out under it.

H.M.Jr: And you might add: and the Social Security Board is in the same boat. Right?

Altmeyer: Yes. Now, of course, I think...

Magill: Of course, one funny angle, if you want just a little amusement out of it, is that the President has this conference on Friday with respect to this new plan and then on Saturday signs the extension of the taxing act at the seven percent rate.

Gaston: That's the old rate?

Magill: Yes. And so under the existing law we are entitled to this 135 million, whatever it is.

H.M.Jr: But they are damn careful not to get out the publicity until after the President has signed it. Any significance in that? They wait until afterwards.

Magill: I don't know.

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- Gaston: After that conference - we are not in a position to say anything as to any commitment at that conference that the President had on Friday.
- Magill: Except the fact is he didn't commit himself.
- H.M.Jr: There were no commitments. Mr. Latimer said there were no commitments made.
- Altmeyer: Yes, there was a basic commitment made. No question about it.
- Bell: That's what I'm afraid of. These railroad people went out - away from the conference with the idea that they had gotten something out of the President, and so it's not what you're going to say now but what you're going to say after the railroads and the labor crowd have spoken to the newspapers.
- H.M.Jr: Well, somebody spoke yesterday.
- Bell: No, I mean if Gaston gives something out today, they will interview Mr. Pelley and the unions and they will take issue with you on your facts. Unless you're pretty sure of what you're giving out today, then you'll have to worry about what they're going to say.
- H.M.Jr: Well, before Herbert Gaston gives out anything, he's going to go over to see Steve Early and talk it over with him first.
- Oliphant: I think Mr. Altmeyer is discussing the heart of the thing. What was the commitment?
- Altmeyer: Here is what I consider to be the basic commitment. I am sure that Pelley and Harrison went away with the understanding that the President was committed to a plan for extending the protection of the old age benefit provisions of the Social Security Act to the railroad industry, with the understanding, however, that any higher benefits that the railroad industry desired to pay would be financed completely out of additional taxes than those provided in the Social Security Act. Now, he isn't committed to any particular way of bringing that about, but he is committed to that basic proposition.

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- Latimer: Yes; well, that's true. But he was committed to that before he started negotiations.
- Altmeyer: Well, maybe so, I don't know about that. But I do know that that - I got that as a result of the conference.
- Latimer: Well, that's true; that's nothing but what has been admitted all the time.
- Altmeyer: Now, we're talking about publicity. If that is true, isn't the way to handle the publicity to indicate that the Government does look with favor upon a plan to extend the basic protection of the Social Security Act to the railroad industry, with the understanding that higher benefits will be financed out of additional taxes, but the Government at this time has not had submitted to it the details of a plan to bring that about. Or put it the other way around: the Government is not at this time prepared to underwrite any particular plan.
- H.M.Jr: Well, if you don't mind, I'd put it a little differently. I would simply say that we met and that we find that we have not yet got all the details of the plan, and that we will have to have several more meetings; and that after we understand at least what the three agencies are working for we are going to make a report to the President as to how we look at it among ourselves, because the President - before we did anything, before we came to any conclusion, he wanted us to report back.
- Altmeyer: I think we've got to be careful in any statement we make that we aren't putting the President in the position of repudiating a commitment on a basic proposition. Otherwise, they'll get excited and they'll say, "Well, we understood this, and now we....."
- H.M.Jr: Well then, all right, supposing we just simply say this. Just leave it that for the first time the Treasury is getting the plan.
- Altmeyer: Well, I'm perfectly willing to have Social Security included in that.
- H.M.Jr: Well then, Social Security. Or just put it that we

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are going into this problem and we'll have to have several more meetings.

Altmeyer: That's the most cautious way to handle it.

H.M.Jr: We'll just say we're going into this thing, we'll have to have several more meetings, and then expect to report back to the President.

Oliphant: That is, if you're going to.....

H.M.Jr: Simply study this thing.

Oliphant:if you're going to avoid this saying that it hadn't been laid before you.

H.M.Jr: Well, we've got to say the thing.

Oliphant: Well, my point is if you say that Mr. Pelley and the railroads will say it was officially laid before the Government - laid before the person handling it officially for the President, before it was public.

H.M.Jr: All right, simply say that the three agencies are studying this thing, will have to have several meetings, and when we come to an understanding on the thing we'll report to the President. How's that?

Altmeyer: I think that is certainly cautious enough.

Magill: I think in speaking of it, it might be a desirable thing to speak of it as a proposal of the railroads and their employees.

Gaston: I was going to suggest this: that Mr. Altmeyer and Mr. Latimer came here to discuss with the Secretary today the proposals of the railroads and the railroad unions for revision of the law so far as they understand them; and there was some preliminary discussion; we haven't yet full information as to their - the proposals which they would advance, and there will be further discussion of them.

Latimer: Well, it is important to look on these whole agreements now as being in the nature of tentative agreements.

Magill: Yes.

Gaston: Yes, the tentative understanding or the tentative proposals. And the railroad unions....

Latimer:go along with the present litigation. I know at leave five large railroads are saying, "We take the position, and have to take it, that we hold the present legislation is unconstitutional and we think we can defeat the whole legislation in the Supreme Court, and we're going ahead and continue our fight against it to throw the whole thing out."

Bell: Is that a club that they hold over the Administration to agree with these proposals?

Latimer: It is a fairly sizeable club.

Altmeyer: Couldn't you send a telegram to Harrison and Pelley asking them to make it clear that it would - in these discussions next week that this particular plan does not have the Administration's blessing?

Latimer: Of course, having done that,.....

Altmeyer: I mean as a matter of record wouldn't it be a good idea to get it in the form of a telegram to them, so they are on notice? Ask them to make it clear to the conference that that is the case. I mean it would come much more gracefully from them than for us to say something.

Latimer: You think we ought to do that?

Altmeyer: Well, don't you think so?

H.M.Jr: I think so too. That would accomplish my whole purpose. The thing we are worried about is the notice being out to the conference that the Government has agreed to this. But now if Mr. Latimer sends out a telegram like that, that would be perfect.

The other thing I was going to suggest is if you would be willing to meet at a time agreeable - some time with Mr. Magill and then go over this. I won't sit in at the next one, but I think you ought to have another meeting tomorrow.

Oliphant: What should that telegram say?

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- Magill: Better be about Thursday, see? If we get your memorandum tomorrow morning and go over it, then Bell and I ought to have a chance to look at it.
- H.M.Jr: Make it Thursday.
- Latimer: Well, I'm not going into great actuarial details, because that would require from now until next week. I am merely saying that it is based on the material as collected over a period of ten years.
- Altmeyer: Of course, we have been talking some costs and so on, but I think there's other things we have to consider before we underwrite the thing.
- H.M.Jr: Well, I allowed an hour and if you don't mind - maybe if you want to adjourn just across the next room, if you want to go any further today.
- Altmeyer: No, I just wanted to mention that this...
- H.M.Jr: Well, Magill said six or seven things and we only went into one of them. I just would be curious what sort of telegram you'd send to them, but if you don't mind, I'd like to be excused; I mean if you....
- Latimer: I thought we'd say something like this: "Newspaper reports indicating Administration commitment to tentative agreement seem misleading. Important to make clear to your principals that Administration not committed beyond (1) Continued maintenance separate Railroad Retirement Act; (2) Extension of provisions of Social Security Act to railroads."
- H.M.Jr: Do you think that covers it, Magill? Danny?
- Bell: I can't swallow that. There's something wrong with the basic idea, that's all. I just can't see a committee in Congress providing this money out of the Social Security Act when the employees and the employers of the railroads don't contribute anything to the tax in the way of taxes to the fund.
- H.M.Jr: Well now, look, would you mind working it out with these people?

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- Latimer: I'll cut out Number Two.
- Bell: It isn't necessary to put Two in. I'd cut it out.
- Latimer: Well, the President has gone along, but...
- Altmeyer: I really think that is over the dam now. From the standpoint of public relations with the railroad people, with labor and the executives, you might just as well face it now as later, because they're going to come back at you and call you names if you back up on Number Two.
- Latimer: I think we can persuade you.
- Magill: Well, I wonder if you have to say in your telegram what the Administration is committed to anyway. I think that is not the most desirable thing.
- Latimer: Well, I think it is important not to sound like the Administration is backing up completely.
- Gaston: Something like: "In view of newspaper statements, I think it advisable to avoid advising your members that the Administration is fully committed to details of any plan."
- Bell: The whole proposal.
- Latimer: I think it is other things rather than real details.
- Oliphant: It is much more than details.
- H.M.Jr: Why don't you go into Magill's room?
- (Group retires to Mr.
Magill's office, without
Secretary)
- Oliphant: I've got a basic difficulty here, Ros, and that is this thing: this bright red apple having been dangled in the morning papers before the rank and file, that the damage has been done, and I - did you get what I said there?
- Magill: No.
- Oliphant: I say this: in terms of the reality as to whether or not we do have to consider this, this bright red

apple having been dangled in front of the rank and file of the employees in this morning's papers....

Magill: Not to mention the railroad stockholders.

Latimer: That's the worst part of it.

Bell: Their earnings have gone up.

Olyphant: And I still say I think the important publicity is what you're going to say when Pelley and the unions come back at you. That's what we ought to be thinking about, because until we see the end of the road, we better not start down it.

Altmeyer: Are you (Latimer) sure that less than seven percent is going to handle it? I think from a practical standpoint what the Government ought to try to do is save the seven percent; never get any more, but...

Latimer: Well, see, at 7.13 the total - and it will cover it all right if they don't change it, but there's some points in there where my feeling is that the strong pressure is going to generally....

Bell: That makes it all the more important why we should get seven percent.

Latimer: I agree with you you ought to get seven percent, but we can't - of course, we can't predicate the cost on something that Congress is going to do ten years from now.

Altmeyer: But now is the time to do the bargaining, not after we are going on it, and with a year and a half gone. And you remember Harrison mentioned at the President's conference - he said, "We told you at that time, Mr. President, that if we needed more taxes to support these benefits, we'd go along with increased taxes, or we'd even reduce the balance."

Latimer: I'll say this for Harrison. Harrison did try his best to keep the taxes at the seven percent level.

Bell: Who's Harrison?

- Latimer: He's the railroad man, the labor man. He was in favor of it; never in favor of cutting taxes under seven percent. Reason was they wanted more benefits. But the railroads put it over on them the last few days. I don't remember what day it was, but I think until last Thursday we had not supplied a single cost figure other than one based on seven percent - that is, on one less than seven percent; and some on a basis of making it nine and beginning after March 1, 1936.
- Oliphant: Well, I'd like, Ros, to think - well, just to follow through a little bit in terms of not merely the present publicity but what the Secretary will be in a position of saying or having to say or having to deny or having to take back after the Brotherhoods and the Executives have had their say. Will they be in a position to say that it is wrong, that this agreement was reached, it was laid before the man handling it for the President, laid before the Treasury, and it was not public until after that was done? For instance, I'd like to know were they advised of your (Latimer) conferences with us? I don't want the Secretary to say....
- Altmeier: The last word that we got in the President's office was there would be no publicity on it.
- Latimer: They asked for it.
- Gaston: The last word was that there would be no publicity?
- Altmeier: That's right.
- Oliphant: I'd like to clear up the fact whether or not the conferees were advised of your conferences with us.
- Latimer: Not the conferees as a whole. But I did, as I say, before take Harrison and Pelley aside and say that the Treasury...
- Oliphant: That you'd laid it before...
- Latimer: ...would have to be brought in to review this whole thing at some stage. I told him as a matter of fact that at the stage where it got before the Committee on Ways and Means and the Finance Committee, they would send it down to you, and therefore they could expect

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that some changes would be made at your suggestion. I thought that was...

- Magill: Well, did they have the idea whenever they broke up their negotiations that the Treasury had seen this plan and approved?
- Latimer: No.
- Oliphant: I don't mean the details.
- Latimer: As far as they knew, the Treasury has not seen it.
- Magill: Didn't know anything about it?
- Oliphant: That is, they don't know of your conferences with us?
- Latimer: Well yes, Harrison and Pelley do, because it was stated before the President and it was stated to them in private that you hadn't committed yourselves; but whether - you see, I'm not a part of the general conference and most of the conference was going on between the main committees. I was not present, so I can't vouch for what was said when I wasn't there.
- Magill: But at any rate, there was nothing said to Pelley or Harrison which would give either of them to understand that we had gone over this and approved it.
- Latimer: No, quite to the contrary.
- Altmeyer: Well, I don't understand. I mentioned to you (Latimer) on the way out - I said, "Is this going to go over to the Bureau of the Budget and the Treasury?" and you said, "Of course, it will have to clear that way." Now, my understanding was that you were going to send it over.
- Latimer: Well, I didn't tell them that I was, because I knew that as far as they were concerned...
- Altmeyer: I still can't understand why it was to be handled with private individuals introducing bills into Congress and then to come that way back here to the Administration and then the President to write a letter underwriting the bill. It seems to me...
- Latimer: That was his own proposal.

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- Altmeyer: I know, but I can't understand why it would be handled that way, because it was bound to - there was bound to be something handed up here that would put you on the spot.
- Latimer: Well, that's the way - they asked him what he wanted to do and that's the way he said he wanted to handle it.
- Oliphant: In their comeback on this, would they be in a position to say they were relying on you (Latimer) to clear this with the Treasury and the Budget Bureau?
- Latimer: (Nods no)
- Bell: What worries me about it is that - what you (Latimer) say, that the President told them to go ahead and submit these bills, didn't he, to the Committees, then he would write letters to the Committees, and he didn't want to send any bill up with a message.
- Latimer: That's right.
- Bell: But they were to - somebody, I don't know whether they or Mr. Latimer, were to send bills to the Chairmen of the Committees in Congress.
- Latimer: No, we weren't.
- Bell: Well, I don't know. I got word that it was to go to Congress, then the President was to write a letter to the Chairmen of the proper Committees endorsing whatever program they laid down. That is what worries me.
- Gaston: That is, your understanding was it would go up not as a railroad conference proposal but it would go up as sort of an Administration proposal.
- Bell: No, I don't know who that was stated that. I just thought that Mr. Latimer - I didn't know whether he was to handle the bills to the Chairmen of the two Committees or whether the railroad people were to do that. But I got the impression that the President said the bills could go directly to the Committees and that he would write a letter after

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they were introduced. Is that...

Altmeyer: That's right.

Gaston: Well, of course, if they were to go to a Committee, they would have to come from some government department.

Latimer: No, they were to be introduced by Congressman Crosser in the House.

Bell: I see:

Latimer: I don't think they mentioned who it was in the Senate, did they?

Bell: See, they just hand these bills informally to some Congressman or Senator and they introduce them.

Gaston: The Brotherhood?

Bell: Well, I didn't get who was to do it; that wasn't clear.

Magill: What did they propose to do? I don't know that we can - did they propose to introduce a new taxing act and a new railroad retirement?

Latimer: Yes, in that agreement.

Magill: I don't think it says.

Latimer: It doesn't? Well, they have. Have you (Altmeyer) got that?

(Altmeyer hands Latimer
requested papers)

It's really a new bill, I should say.

Bell: What does this new bill propose to do, combine both the benefits and the tax in one bill or separate bills?

Latimer: Separate bills.

Magill:"that it shall be amended to include...."

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- Latimer: I haven't read this myself.
- Gaston: I told these newspapermen out here that you gentlemen had been here with the Secretary in order to learn what you knew of these tentative proposals of the conference of railroads and Brotherhoods, because it was a matter of such great importance from the tax and budget standpoint that the Treasury wanted to get the latest information. And they wanted to know what Mr. Altmeyer was - why Mr. Altmeyer was here. Well, I said that this railroad matter is a matter so closely allied to the matters under the jurisdiction of the Social Security Board that naturally Mr. Altmeyer's advice would be sought. I don't think there is anything dangerous in any of that.
- Altmeyer: No.
- Magill: Well, your (Gaston) statement pretty well covers the situation.
- Gaston: They also asked me specifically whether this new plan was to bring the railroad employees in under the general provisions of the Social Security Act, and I told them I didn't know. Or they asked me, rather, whether they would be brought in, and I said that I could with good conscience answer them that I didn't know, and that I also didn't know what the outcome of the President's general reorganization plan would be if it went through - it might affect the situation.
- Latimer: Even if that second thing were put in (referring to proposed telegram), it would raise so much - take from now until doomsday to answer all the questions about it.
- Bell: What have you got there?
- Latimer: "Reports in today's press intimating complete Administration commitment to tentative agreement are disturbing to those involved. Stop. Urge that it be made clear that commitment thus far made relates only to special railroad retirement legislation....." And I don't know what to do about that Two.
- Gaston: I should not attempt to be explicit about what the

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commitment is at all. That sort of advice will have to come from the White House.

Latimer: Well, how would you put it?

Magill: Would you say something of this kind, that "In view of newspaper publicity regarding tentative agreement between carriers and their employees, request that you make it clear to your respective organizations...."

Gaston: "I think it important that it should be made clear to your respective organizations...."

Magill: "that the....." - what I am going to say is that the "blank" is still subject to examination and approval by the Treasury and the Social Security Board, or something of that sort.

Latimer: Well, that is - that would be very much more upsetting than this. I mean they will...

Altmeyer: Well, could you say this: that you think it important to make clear that there has been no commitment - or whatever word you want to use - concerning any specific proposal? That's the fact, isn't it? You don't have to say what there has been commitment to. You can merely say there's been no commitment to any specific proposal or to the....

Bell: ...to the proposal in its entirety, or something like that. Could you say to the proposal in its entirety?

Altmeyer: And leave the implication that part of it has been agreed to?

Gaston: I think that's about the way to say it: that there has not been a commitment to any specific proposals. What do you (Magill) think?

Magill: Well, that's what I'd like to say. The only question I'm raising is Mr. Latimer's question of what the effect is going to be.

Bell: Why couldn't you make it singular - "specific proposal" - which would take in the whole thing?

Latimer: "no commitment by Administration....."

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Altmeyer: What I'm not clear about is just what was going to happen after the conference with the President. What were they to go to their principals about?

Latimer: Well, they wanted to know how far, assuming that they could - as I understand it, they had discussed at some length whether they should take the plan that they agreed upon among themselves and go back to the railroads and labor organizations and after that was done then come to the President and say, "We'd like to get this" and see what he said after that, or whether - and then they said, "No, we don't want to do that, because we don't even know whether the President wants any of this or not. Will he - does he even favor the general idea of it?" They said, "We'd like to get some commitment out of him on that - that he does favor it - the maintenance of a special rule in the system. And we can go back to our principals and say that he does favor that."

Now, that's why they went to the President. Of course, it is obvious that they wanted a lot more.

Altmeyer: How long was this pledge of secrecy to last - until up to the time that they met with their principals?

Latimer: I understood it was to last until they.... Remember he said that as soon as they had a meeting with the principals - that after they notified each other that they were in agreement, he wanted a report from them. I would say it was to last up until that time.

Altmeyer: Well, I think probably sending a telegram like that would - if they weren't supposed to even discuss the conference with the President, I think perhaps they ought to be reminded of that fact, reminded that it was to be kept confidential.

Latimer: Don't know what good that would do. They'll all swear they don't know a thing about it.

Gaston: The further we get, I think any telegram sent ought to be approved over at the White House by McIntyre or Early.

Bell: Yes, I'm inclined to agree. The more we discuss it the more I'm convinced that....

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- Gaston: The point is we don't know how far the President feels that he is committed on this thing.
- Bell: Well, the President did say to the Secretary that he isn't committed. But just the statement you make, that these people couldn't go to their principals and discuss this matter until they found out how the President stood on it, convinces me that they have gone away with the understanding that the President is pretty well committed to it.
- Latimer: Well, how could they go away with such an impression when the President didn't know anything about.....
- Bell: Well, Mr. Latimer, when I - I don't know, when you deal with the President a couple years... And I think you have to find out how he deals with people. Now, he doesn't go into the details, but I think that there are times when he does give a definite impression of approving matters, and I think a stranger might very well go out of that room plenty of times and think that they have the full approval of the President. I've seen it happen many a time.
- Latimer: Yes, I know; after it's been put up to him... Now, I started to go into some of the details of the thing and the President didn't want to listen to details. He didn't want to go into it. But he gave me the very impression that he didn't want to commit himself because he didn't want to hear the details.
- Gaston: Well, obviously I should think that the President didn't want to take a verbal statement of the details and give an approval on that statement. He might say, "I'm in accord with certain general ideas on this thing," but before it got down to signing on the dotted line he wanted to see in black and white just what he's underwriting.
- Latimer: Well, that's perfectly true, but he didn't want any of that on Friday.
- Altmeyer: He's not committed to any specific proposal, I'm sure, and I'm sure they don't have that opinion either.
- Latimer: I think this publicity is an attempt to drive it home.

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- Bell: That's probably right.
- Gaston: No question about it. It's coercing publicity.
- Altmeier: I said - didn't you (Latimer) hear me say there ought to be conferences on this? And then we started talking about something else. I knew darn well that there was going to be a gap between the general commitment of the President to the idea and the specific proposal that they were talking about sending up to the Hill. I was confident that there would be a gap there.
- Latimer: Well, here's what we have: "In view of premature newspaper publicity regarding tentative agreement between carriers and....."
- Altmeier: Don't put "premature." Just "In view of the newspaper publicity." "Premature" indicates there is something coming along.
- Magill: O.K., that "premature" is mine; take it out.
- Gaston: I'd say that was premature; go ahead.
- Latimer: "In view of newspaper publicity regarding tentative agreement between carriers and their employees, think it should be made clear to your respective principals that there has been no commitment by Administration regarding specific proposals."
- Gaston: I would say O.K. when it has White House approval.
- Bell: How do you feel about it, Mr. Latimer?
- Latimer: Well, I think it would - after they get this, they'll have me on the long distance wondering what the hell this means.
- Gaston: Well, that ought to be pretty easy to explain, I should think. There was a discussion of general principles over there and an agreement that there would be no publicity. Out comes in the newspapers a detailed plan with the implication that the Administration has agreed to all this and that the railroads are going to save a great many million dollars this year in taxes.

COPY

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RAILROAD RETIREMENT BOARD
Washington

Murray W. Latimer
Chairman

Feb. 9, 1937

The Honorable John G. Winant, Chairman
Social Security Board
Washington, D. C.

Dear Mr. Winant:

On December 28, 1936, the President addressed a letter to representatives of the railroad managements and railway labor organizations urging upon them "the desirability of a conferenceto consider the retirement problem and attempt to find a satisfactory solution." He suggested that the conference formulate joint recommendations for the benefit of Congress.

In accordance with this suggestion, a series of conferences has been held in Washington. At the direction of the President, this Board has placed its information and technical facilities at the disposal of the conference and has made estimates of the cost of various retirement plans which have been under discussion by the conferees.

The calculation of costs has raised a question having to do with the general policy underlying the formulation of social security measures: shall a railroad retirement system be regarded as an independent plan having no relation to other similar measures instituted by the Federal Government or shall it be regarded as a combination of the general old age benefit system with a structure of additional benefits and financial support superimposed thereon.

The practical bearing of the question on the problem under discussion can be made clear by a recital of certain facts.

At the moment of its enactment, the old age benefit system created by the Social Security Act embraced railway employment. Certain taxes were levied which, it was estimated, would reimburse the government for the expenditures made under the old age benefit system.

A few weeks later Congress enacted legislation which excluded employment on railroads and closely allied organizations from the definition of employment of the old age benefit system and of Title VIII of the Social Security Act which levied taxes on wages received and paid in corresponding employments. As a result of that action, according to calcula-

tions made by our actuarial staff, benefits payable under Title II were reduced by an amount greater than the reduction of taxes under Title VIII.

We have made various measurements of the benefits and taxes under Titles II and VIII. Calculations may be made in terms of present values or of annual amounts of differentials between total benefits and the so-called "earned" portion. For present employes, these differentials, assuming retirement at age 65, have a present value, as of today, of the order of \$650,000,000 and an aggregate, without allowance for time of payment, of upwards of two billions. For an average retirement age of 67½, the present value of the differential will be about \$350,000,000 and the actual gross excess will exceed one billion. These differentials exist generally in the early years of operation of the old age benefit system; but they are offset by later increased financial provision.

By reason of the relatively advanced ages of railroad employes as compared with those employments covered by the old age benefit system, both for present employes and new entrants, the differentials for railroad employment would be to a large degree permanent.

The question therefore, in more specific form, is this: in the calculation of costs must we regard the railroad retirement system as an entity in itself, or can the costs be regarded as having been provided for if the financial provision in the retirement act is such that the government books are in the same state of balance for the combination of old age benefit and railroad retirement systems as they would be were railroad employment embraced in the former system.

If, in your judgment, the second of these alternatives constitutes the proper policy, we raise the further question as to whether you would favor the adoption of a formula by which the differentials would be actually placed in a railroad retirement account currently or whether the government, on a showing as to the existence of balance between expenditure and financial support, taking both systems into account, should merely underwrite the payment of benefits, leaving to later determination, in the light of subsequent developments, the specific form and method of providing financial recognition of the differentials. The financial provision contemplated for the railroad retirement system will, taking no account of financial recognition of the differentials, support the proposed system, including expenses of administration, during the next generation.

Since the recommendations of the conference will undoubtedly be referred to you for scrutiny as to conformity with general social security policy, I suggest that it would be appropriate for you to make known your views to the conferees in order that they may be governed thereby.

Yours very truly,

MURRAY W. LATIMER

Copies to:
J. J. Pelley, President
American Association of Railroads,
Mr. George M. Harrison, Chairman
Railway Labor Executives' Association

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February 10, 1937

Mr. Murray W. Latimer,
Chairman,
Railroad Retirement Board,
Washington, D. C.

Dear Mr. Latimer:

This will acknowledge your letter of February 9 asking for the opinion of this Board as to certain matters of general social security policy. Since similar questions are likely to be raised from time to time in other connections a statement of the general principles on which our answers are based is appropriate.

We regard the old age benefit system created by the Social Security Act as the necessary basis of all programs for old age security within the range of its initial coverage. We have not and do not favor exclusion from coverage based on any action in the field undertaken voluntarily by a single employer or a group of employers, although we believe voluntary benefits provided to supplement the old age benefit payments are worthy of encouragement.

Under certain circumstances, we believe a federal system created by legislation apart from the general old age benefit system would be warranted. To be justified the following conditions should be present:

1. The industry should be one affected by a national public interest, and one to which normally federal legislation and regulation apply;
2. The old age retirement system should provide larger aggregate benefits than those of the general old age benefit system and no individual employee should be worse off by reason of being covered by the special system rather than by the general old age benefit system;
3. The machinery for administration of the system should be so organized as to operate with maximum effectiveness in conformity with policies adopted by Congress for administrative management.
4. The creation of a separate system should in no way adversely affect the financial support of the general old age benefit program.

Mr. Murray W. Latimer - 2/10/37

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A special railroad retirement system created by Congress would, of course, meet the first of these conditions. We understand from your letter that the proposed railroad retirement system meets the second condition. The application of the third principle will be dependent upon congressional policies now in the process of formulation.

The fourth principle furnishes the answer to the first of your specific questions; provision of an old age retirement system for any specific group is to be regarded as composed of the general old age benefit system, with its correlative financial support, with superimposed structure of benefits and a corresponding means of providing for them. In other words, the creation of the special system should not affect the balance between income and outgo which would exist without it. Creation of a separate railroad retirement system has not, of course, adversely affected this balance, but in other cases this would not be true and it is important to establish a precedent here so that the acceptance of the principle may be assured.

As to the second question: it seems to us unwise to formulate at this time any rule for the purpose of including currently in the railroad fund the differentials referred to by you. It appears more appropriate for the government to agree to underwrite the benefits on a showing by you of the existence of the general balance. This view is based on several considerations. First, the Social Security Act is still in a developmental stage; doubtless changes will from time to time be found desirable. Changes affecting the old age benefit system will produce corresponding changes in the differential, and any measurements now made would require revision. Second, changes in conditions may require modification of reserve policy and the government should, in this respect, be left free to work out that problem without unnecessary restriction. Third, current financial recognition of the differential is not needed to support the benefits for many years; and, the assurance of old age security for the employees affected is in no way diminished by leaving the government free to determine its financial policy in this respect as conditions may from time to time indicate.

In accordance with your suggestion I am sending a copy of this letter to Mr. J. J. Felley, President, American Association of Railroads, and Mr. George M. Harrison, Chairman, Railway Labor Executives' Association.

Sincerely,

Chairman

Mr. Murray W. Latimer - 2/10/37

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Copies to:

Mr. J. J. Pelley, President
Association of American Railroads.

Mr. George M. Harrison, Chairman,
Railway Labor Executives' Association.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 2, 1937, 1 p.m.

NO.: 292

CONFIDENTIAL.

A reliable newspaper correspondent has told me that he had just seen Blum and that the latter authorized him to publish a statement to the effect that a decision against exchange control had been made by the French Government. According to my informant, Blum said that the financial and monetary difficulties of the Government would be solved by exchange control and the majority would receive it with satisfaction, but there was one controlling reason for deciding against it - i.e., it would run counter to the declaration of policy under the Tripartite Agreement, and that the United States and England would look upon it with disfavor. Therefore the French Government would not institute exchange control, and for this reason only.

In addition Blum told my informant that the question of the modification of existing tariffs and quotas was being studied by Professor Rist. He said the study would be submitted to Parliament for appropriate action as soon as it is completed.

The above account throws light upon an inspired statement published in the AGENCE ECONOMIQUE ET FINANCIERE

* 2 *

this morning to the effect that the French Government intended to stand by the monetary and economic policy set out in the Tripartite Agreement, and that the French Government did not intend to make a change in this respect.

WILSON.

EA:LWW

RECEIVED
MAR 2 1947
TREASURY DEPARTMENT
WASHINGTON, D. C.

RECEIVED
MAR 2 1947
TREASURY DEPARTMENT
WASHINGTON, D. C.

March 2, 1937

Mr. Mallet came in to see the Secretary today at 4:30. Mr. Lochhead was also present.

The following is stenographic report of their meeting:

Mr. Mallet: I am afraid our poor friend Trentham is still laid up with the flu. He asked me to bring this message down to you that he just got this afternoon from the Chancellor of the Exchequer. (Copy is attached.)

HM, Jr.: Let me read this out loud.

"Please thank Mr. Morgenthau for his message and assure him that I fully share his desire that we should continue to keep in closest touch about the French situation.

As stated in Chancellor of the Exchequer's message to Mr. Morgenthau February 10th His Majesty's Government urged the French Government to take speedily most vigorous action to restore confidence. French Ministers in their reply stated that the French Government were firmly refusing to impose exchange control and that measures which they had under consideration included free movement of gold, a pause in increase of expenditure, use of a more elastic technique by French equalisation fund to defeat speculation, limitation of rise in prices and reduction of customs tariffs and abolition or limitation of quota restrictions."

I want to ask you (to Mr. Lochhead) a question I have meant to ask you before. When the French devalued the last time, did they seize all the gold or didn't they?

Mr. Lochhead: They technically declared that they were going to take it over, but they never got it.

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HM, Jr: They have never taken it?

Mr. Lochhead: No. They have taken no actual physical steps. They said gold should be turned in, but they never put up any restrictions or exacted any penalties.

HM, Jr: They never went through with it?

Mr. Lochhead: That's right. They never went through with it. They modified it after they said they had to turn over all the gold. Then they said, Turn over the gold and we will give you certificates for which you will get bonds and they paid a premium on that, but even that has not drawn out much gold.

HM, Jr: But they never went out and took the gold.

Mr. Lochhead: No; never went out and seized the gold.

Mr. Mallet: Didn't they put a penalty on gold being brought back by the French?

Mr. Lochhead: The idea was to turn the gold in, get a certificate on which you could get a premium, but nobody has paid any attention to it. Just like collecting taxes -- nobody paid any attention to it.

HM, Jr: (Resuming reading.)

"His Majesty's Government regard (1) a free gold market combined with (2) a more elastic technique in employment of French equalisation fund as of special importance. As regards (1) foreign exchange should be in our view treated on the same footing as gold, and capital should be free to return to France without penalty or hindrance."

Mr. Lochhead: In other words, the French should be able to bring back exchange they have abroad without paying a penalty on it.

-3-

HM, Jr: (resuming reading.)

"As regards (2) it was explained that our experience suggests that so long as rate of franc is rigidly pegged speculators for a fall can operate at small expense in hope of making a profit without incurring a loss. His Majesty's Government stated that they would be quite willing for their part if it were desired by French Government and should United States Government concur to state that it was with full concurrence of His Majesty's Government that French Government intended in present circumstances to make use of liberty given by existing French law to vary value of franc from time to time."

HM, Jr: When he talks about varying the value of the franc, he means

Mr. Lochhead: They paid at the middle rate and keep it at the middle rate with the right to devalue ...

HM, Jr: He says something later on about the 8%.

(Resuming reading)

"I had expected to receive a further communication from French Government at the beginning of last week and was waiting for this before sending a message to Mr. Morgenthau. But I now learn that French Government postponed any decision until after debate in chamber on Friday last and that I cannot expect any further communication for a day or two."

"His Majesty's Government agree with the United States Government that a further depreciation of the franc by not more than eight per cent would in present circumstances not be open to objection but as explained above they consider that in

-4-

"order to restore confidence free movement of gold at its full value should be permitted and that the franc should then be allowed to vary within limits fixed by French monetary law. They would be very glad to learn if the United States Government agree in this view."

HM, Jr: I just can't answer that today.

Mr. Mallet: No; quite.

HM, Jr: (Resuming reading)

"Generally speaking His Majesty's Government feel that situation depends on internal measures to be taken by the French Government who have already been informed that His Majesty's Government in the United Kingdom have no statutory power even if they were willing to take part in a modified pooling of stabilization fund resources as seemed at one time to be suggested."

I can say that that has never been suggested to us -- that we pool our resources.

Mr. Mallet: I suppose the French must have suggested that.

HM, Jr: To the British, but it was never suggested to me. That's a new one. Am I right (to Lochhead)?

Mr. Lochhead: Absolutely.

HM, Jr: They have made other suggestions, but not that.

(Resuming Reading)

"But I would like Mr. Morgenthau to know that in my personal opinion there now remains little hope of avoiding a breakdown of monetary agreement due to

-5-

"exhaustion, perhaps in the course of this week, of recent London credit. I agree with Mr. Morgenthau in thinking that there is nothing which the United States Government and His Majesty's Government can do to help the situation though of course I should be glad to consider any suggestion of action which might be taken in concert to prevent breakdown."

HM, Jr.: Well, I will just have to digest this. I appreciate this very much and appreciate the importance. All I may say is that Mr. Chamberlain is even more pessimistic than I am. I gave the French Government two weeks.

Mr. Mallet: To exhaust that fund?

HM, Jr.: I gave them two weeks.

Mr. Mallet: And he is giving them this week.

HM, Jr.: We gave them two. Not to be too harsh, I told Mr. Bonnet yesterday the month of March. I didn't want to be too harsh.

Mr. Mallet: Yes. Did Mr. Bonnet have anything to suggest?

HM, Jr.: Nothing! He brought, as far as I am concerned, nothing. Nothing. Of course, the only think that this does not answer (and I don't know that there is any answer) and that is, I suppose -- if the French this week, or next week, or the week after, should collapse, just how your Government and ours would handle the situation. I don't know and I don't suppose either of us knows. And that was the question that I asked your Ambassador to ask Mr. Chamberlain and I suppose, pending the actual breakdown, I suppose we don't know how to face the situation.

Mr. Mallet: Depends on how the breakdown occurs. wouldn't it? If the French should, as a last resort, suddenly try to impose restrictions of some sort

-8-

HM, Jr: Well, of course, you know what happened the last time -- actually it was from Thursday noon to Friday midnight that we put that agreement through.

Mr. Mallet: Yes.

HM, Jr: People with experience with them before do say they never do anything until they are on the brink of the precipice.

Mr. Mallet: It looks like that now, because they have kept the Chancellor waiting for four or five days.

Mr. Lochhead: I imagine they would notify us as parties of the agreement if they took another step, but I also imagine they would notify you on Friday if they were not able to operate on the next day.

Mr. Mallet: Wait until the last moment.

Mr. Lochhead: Yes; wait until the last moment, and I imagine they will carry out the letter of the agreement by notifying us or consulting with us, but I am afraid it will be too late. We will have to have very quick action between the British and ourselves.

HM, Jr: Let's say that Mr. Chamberlain is right. Let's say it is this week. I can't -- I can just -- I am in complete accord with him that it is an internal French matter that the French can only cure themselves. I am in accord with that.

Mr. Mallet: Yes.

HM, Jr: I am in complete accord with Mr. Chamberlain that this is an internal French matter and certainly there is nothing that I can say that we could do from this side to help them in their present dilemma. Where I differed from Mr. Chamberlain, I was giving them two weeks.

Mr. Mallet: Uh-huh.

HM, Jr: Now as to this question of free gold movement, I would like to think about that. I realize he is asking me a direct question. I could not just

Mr. Mallet: No. No.

HM, Jr: But the important things are (1) he says, and I have said in my message, that we are both in agreement that if the French want to devalue another 8 percent ...

Mr. Mallet: You have said that already, of course.

HM, Jr: We are in agreement on that.

Mr. Mallet: It would not do any harm to tell him again.

HM, Jr: No. I am thinking out loud. Now this other thing -- the question of free gold movement; frankly I have been sort of thinking in the other direction -- that the French should more nearly follow our pattern and they should go through with the thing and seize the gold. It's all right to say that, if you wish to; that I have been thinking more or less in the opposite way and if I had to prescribe, I want Mr. Chamberlain to get this. (To Mr. Lochhead: Is that all right? Mr. Lochhead: Yes. HM, Jr; I thought you were shaking your head because you disagreed with me. Mr. Lochhead: No.)

HM, Jr: I was thinking this way more that the French should have done what we did; that is, seize all the gold.

Mr. Mallet: Yes.

HM, Jr: And then permit gold to move freely as between Governments, just the way we do now. You, see?

Mr. Mallet: Yes.

HM, Jr: But whether it's too late for them to carry out that program now, I don't know.

Mr. Mallet: Yes. On that point you reflect more -- you have been thinking in the other way, but you are still considering the question of his suggestion of free gold.

HM, Jr: Inasmuch as he raises the point to my mind. But I had been running in the opposite direction.

-8-

Mr. Mallet: Yes; quite.

HM, Jr: Why didn't the French go through with the program and seize all gold?

Mr. Mallet: Yes.

HM, Jr: You see?

Mr. Mallet: In September last.

HM, Jr: Yes, when they made the declaration.

Mr. Mallet: Would that not have run counter to the idea at the time of freeing trade barriers?

HM, Jr: No. That was purely internal.

Mr. Mallet: Yes, internal.

HM, Jr: But I don't think at this particular stage that it's very important. I think it's too late. But my mind has been running in the opposite way. I have kept saying to myself, Why don't the French go through with this thing and take all the gold just the way we did?

Mr. Mallet: Yes. What was the question that you said that you had mentioned to the Ambassador and that this does not answer?

HM, Jr: Oh! The only question I mentioned to the Ambassador (and there may be no answer) -- What can the British Government and the United States Government do in case of a financial breakdown in France?

Mr. Lochhead: In other words, we have a Tripartite agreement to which two others have been added. If France drops out, will we drop it all or will we salvage the rest of the countries?

HM, Jr: I asked that and there is no answer to that question.

Mr. Mallet: It certainly is a question they must be thinking of and there is no harm in putting it over to them.

-8-

HM, Jr: And you might say, as a matter of our own interest, I think it is a very important question.

Mr. Mallet: Yes; quite.

HM, Jr: Here are three members of the Tripartite Agreement. France drops out. What are we going to do? Go ahead and try to carry on anyway or that question I put to the Ambassador and asked him to put to Mr. Chamberlain.

Mr. Mallet: I don't remember exactly how he phrased it.

HM, Jr: But there is no reference in Mr. Chamberlain's message to me and if Mr. Chamberlain is right (and I hope he is not), we will have to move awfully fast.

Mr. Mallet: Yes. Anyhow I can put this question.

HM, Jr: And even if I had not said it before, I say it now. Here we have a Tripartite Agreement. I don't know what you call it when two people belong to it.

Mr. Mallet: Bilateral.

HM, Jr: And you might say this to Mr. Chamberlain: that it will be our desire to do everything possible to cooperate with the remaining members to keep stable exchanges. That we will do everything possible.

Mr. Mallet: I am sure he will be glad to hear that.

HM, Jr: To get down to the realistic, it will get down to the stage of what your Government and ours can and will do.

Mr. Mallet: Yes; quite.

HM, Jr: Holland, Belgium and Switzerland can't help an awful lot.

Mr. Mallet: No.

-10-

HM, Jr: It will get down, in the final analysis . . .

Mr. Mallet: They will expect a lead from us.

HM, Jr: Yes. They will expect us to do something and I want to say to him that I will do everything that I can to help.

Mr. Mallet: Yes.

HM, Jr: And I think you might say in the next few days that anything I get I will immediately transmit to him.

Mr. Mallet: Yes.

HM, Jr: And I would appreciate receiving the same sort of treatment from Mr. Chamberlain.

Mr. Mallet: Yes.

HM, Jr: It is not very pleasant, is it?

Mr. Mallet: No. It is really tragic -- the work you have put into it.

HM, Jr: For your information, Mr. Bonnet came in here yesterday and started to give me what we call "a pep talk" and I said -- I listened for 15 minutes, and I said, "Well, Mr. Bonnet, I am no diplomat. I know what the conditions are in your country and wouldn't you really like to be frank with me?" And he completely changed. Completely! He went on to say that he made a speech four months ago that all this would happen.

Mr. Mallet: He did. At the time of the first devaluation.

HM, Jr: He did. I just said, "Don't you want to be completely frank?" Then he completely changed.

Mr. Mallet: Yes. He had no concrete suggestions?

HM, Jr: Nothing. Absolutely nothing. And I told

-11-

him -- not to be too harsh -- that I gave him a month -- the month of March.

Mr. Mallet: How did he react to that?

HM, Jr: He was very serious.

Mr. Mallet: Pessimistic?

HM, Jr: No. He did not say anything. I said, 'I give you the month of March.' Of course, we talked about the French fair. 'If you could only hang on until that.' He said something about tax payments. Said if they could get by the next tax receipts

Mr. Mallet: This is supposed to be their bad season, isn't it?

HM, Jr: Yes. If they could get by this thing

Mr. Mallet: If they could get by March, I suppose they would have a chance.

HM, Jr: Well, thank you very much and please thank Mr. Chamberlain very much and I think we have simply got to work just as closely as we can together.

Mr. Mallet: Yes, we have.

HM, Jr: My regards to the Ambassador.

MESSAGE FROM THE CHANCELLOR OF THE EXCHEQUER
TO THE SECRETARY OF THE UNITED STATES TREASURY.

Please thank Mr. Morgenthau for his message and assure him that I fully share his desire that we should continue to keep in closest touch about the French situation.

As stated in Chancellor of the Exchequer's message to Mr. Morgenthau February 10th His Majesty's Government urged the French Government to take speedily most vigorous action to restore confidence. French Ministers in their reply stated that the French Government were firmly refusing to impose exchange control and that measures which they had under consideration included free movement of gold, a pause in increase of expenditure, use of a more elastic technique by French equalisation fund to defeat speculation, limitation of rise in prices and reduction of customs tariffs and abolition or limitation of quota restrictions.

His Majesty's Government regard (1) a free gold market combined with (2) a more elastic technique in employment of French equalisation fund as of special importance. As regards (1) foreign exchange should be in our view treated on the same footing as gold, and capital should be free to return to France without penalty or hindrance. As regards (2) it was explained that our experience suggests that so long

as/

as rate of franc is rigidly pegged speculators for a fall can operate at small expense in hope of making a profit without incurring a loss. His Majesty's Government stated that they would be quite willing for their part if it were desired by French Government and should United States Government concur to state that it was with full concurrence of His Majesty's Government that French Government intended in present circumstances to make use of liberty given by existing French law to vary value of franc from time to time.

I had expected to receive a further communication from French Government at the beginning of last week and was waiting for this before sending a message to Mr. Morgenthau. But I now learn that French Government postponed any decision until after debate in chamber on Friday last and that I cannot expect any further communication for a day or two.

His Majesty's Government agree with the United States Government that a further depreciation of the franc by not more than eight per cent would in present circumstances not be open to objection but as explained above they consider that in order to restore confidence free movement of gold at its full value should be permitted and that the franc should then be allowed to vary within limits fixed by French monetary law. They would be very glad to learn if the United States Government agree in this view.

Generally speaking His Majesty's Government feel that situation depends on internal measures to be taken by the French Government who have already been

informed that His Majesty's Government in the United Kingdom have no statutory power even if they were willing to take part in a modified pooling of stabilisation fund resources as seemed at one time to be suggested. But I would like Mr. Morgenthau to know that in my personal opinion there now remains little hope of avoiding a breakdown of monetary agreement due to exhaustion, perhaps in the course of this week, of recent London credit. I agree with Mr. Morgenthau in thinking that there is nothing which the United States Government and His Majesty's Government can do to help the situation though of course I should be glad to consider any suggestion of action which might be taken in concert to prevent breakdown.

from Bankers Trust
210

Copy of cable from Mr. ^{McC}Comas, Stockholm March 2, 1937

To BANKERS TRUST COMPANY, N.Y.

ENGLISH CONDITIONS GOOD NO LET DOWN EXPECTED CERTAINLY WITHIN NEXT YEAR OR SO. NO DISCUSSIONS DOLLAR RATE WHICH SEEMS ACCEPTED ALTHOUGH SOME FEELING DOLLAR STILL SOMEWHAT UNDERVALUED. CONDITIONS HOLLAND VERY SOUND AND STADILY IMPROVING. THEY FEEL THEIR DEFLATION REDUCED COSTS 15% THEREFORE DISCOUNT 20 25% SUFFICIENT ADJUSTMENT ESPECIALLY DEVALUATION EFFECTED DURING WORLD PRICE RISE. DENMARK PROSPEROUS INTERNALLY BUT STILL LIVING SOMEWHAT BEYOND ITS MEANS INTERNATIONALLY ULTIMATELY MUST FIND NEW MARKETS ITS AGRICULTURAL PRODUCE OR REDUCE ITS STANDARD LIVING. THIS COUNTRY VERY PROSPEROUS CONSTANTLY GAINING GOLD AND DEVISEN. ANXIETY ABOUT PROSPECTS INCREASED PRICES HENCE DISCUSSION RAISING VALUE KROWER. DENIED THERE WILL BE ANY CHANGE AT LEAST NEAR FUTURE. STRONGLY UNDER INFLUENCE BRITISH PROPAGANDA ABOUT MANAGED CURRENCY BUT DUBIOUS THAT A LEFT GOVERNMENT WOULD DELIBERATELY START DEFLATION BY RAISING VALUE CURRENCY. ALL COUNTRIES CONSCIOUS. GERMAN PROBLEM BUT ALTHOUGH NO SOLUTION DISCERNIBLE UNANIMOUSLY DO NOT EXPECT CONDITIONS TO FORCE CRISIS FOR CONSIDERABLE TIME AND WAR NOT FORESEEN NEAR FUTURE ABOVE ARE OBSERVATIONS AND NOT NECESSARILY MY OWN CONCLUSIONS.

MCCOMAS

0 21143 19
MAR 2 1937
TELETYPE UNIT
MAR 2 1937
COMMUNICATIONS SECTION

COPY

FEDERAL RESERVE BANK
OF NEW YORK

211

OFFICE CORRESPONDENCE

DATE March 2, 1937.

FILES

SUBJECT: _____

Allen Sproul

Mr. Araki, local representative of the Bank of Japan, called this afternoon. He said he had just had a cable from his head office concerning his government's intention to export certain amounts of gold and, specifically, to ship gold to this country. He said there were four points in the message:

1. The Japanese Government is going to export some gold to replenish its foreign funds and to enable it to continue support of the yen, when necessary.
2. The amount which it has presently been decided to export is 13,955 kilograms which, at \$35 per fine ounce, he estimated would amount to about \$17,288,000.
3. It is thought that this gold will be shipped in three approximately equal lots, the first shipment to arrive at San Francisco on March 24th on a Japanese boat.
4. This is gold which the government turned over to the Bank of Japan, at the time when Japan last went off the gold standard.

Mr. Araki said he did not know whether the gold would be consigned to the Yokohama Specie Bank at San Francisco, or whether the Bank of Japan would handle it and, perhaps, consign it to the Federal Reserve Bank of San Francisco. He said there is now some talk about having the government's exchange business handled by and through the Bank of Japan, rather than through the Yokohama Specie Bank. I suggested that if the Bank of Japan expects to handle gold shipments with the Federal Reserve Banks, he should consult with us about the details.

Mr. Araki also explained that this move on the part of his

211- A

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 2, 1937.

FILES

SUBJECT: _____

Allan Sproul

- 2 -

Government represents taking the middle course with respect to support of the yen. The previous government, he said, had instituted import control which, by itself, might lead into something like the German system and be one extreme method of handling the situation. At the other extreme, there would be no control and free shipment of gold. The present government, he said, has decided to retain some measure of import control for the present and also to ship some gold, which represents the middle course.

Mr. Araki said his government does not yet wish to make public the details of its prospective gold shipments, but that it would be appropriate for us to advise the Treasury at Washington if in our judgment this seemed desirable. I told him we would do so.

AS:R

RECEIVED

MAR 4 1937

FEDERAL RESERVE BANK
OF NEW YORK
COMMERCIAL AND FINANCIAL DEPARTMENT

212
M

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 2, 1937, 5 p.m.

NO.: 293 FROM COCHRAN.

RUSH.

Strictly confidential and urgent.

This afternoon I was visited at the Embassy by Professor Rist.

I questioned Professor Rist as to the significance of the inspired article in today's issue of AGENCE ECONOMIC ET FINANCIERE to the effect that the French Government intended to adhere to the monetary and economic policies set out in last September's Tripartite Agreement, and most particularly, that part of the undertaking toward lightening quota and exchange control. I was told by Professor Rist that until I showed the article to him he had not seen it. He expressed the opinion that the purpose thereof might be to combat the rumors current recently to the effect that exchange control might be undertaken by France.

During the conversation Professor Rist insisted that the Government must make the choice, somewhat as Reynaud pointed out in the debate on Friday night, between following the liberal policies of such countries as Great Britain and the United States, or the closed economies of such countries as Italy and Germany. Blum, he said, was personally very proud of his progress and success

END SECTION ONE.

EA:LWW

WILSON.

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 293 of
March 2, 1937, from PARIS.

success in his foreign policy and in the improvement of relations with many of the most important nations. Blum's natural and personal choice, he said, would certainly be to follow the liberal course, and to do everything possible to keep the Tripartite Agreement intact. However, Rist said that little progress had been made in removing trade barriers, and considerable pressure is being exerted in favor of exchange control, particularly by Governor Labeyrie.

Rist called on Blum last week in his capacity as Chairman of the Committee of Trade Policy. Rist told me that he found the Premier was very sympathetic with his arguments in favor of a trade policy which is more centralized. Rist said Blum gave him his approval for presenting the same arguments to the Minister of Agriculture. In Rist's conversations with these two officials he made the point that it was to the advantage of France to liberalize trade - both from an economic and a political standpoint. It was essential from the internal viewpoint to stop French prices from rising above the international price level; facilitation of imports would be a most effective means. He advised Blum that from a political viewpoint he should let his Senate and Chamber realize the progress made by France in her international relations. He should also emphasize the catastrophe which would come if France now

- 2 -

resorted to measures made famous by Germany, and thereby failed on her tripartite agreement.

Rist remarked in the course of the conversation that the Government and particularly the Ministers of Economics and Commerce had suffered a severe blow a few days ago when the Senate did not pass the bill giving the Government renewed authority to make tariff

END SECTION TWO.

WILSON.

EA:LWW

RECEIVED
MAY 2 1921
TREASURY DEPARTMENT
U. S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

PARAPHRASE OF SECTIONS THREE TO SIX, INCLUSIVE
of telegram No. 293 of March 2, 1937, from the American
Embassy, Paris.

changes. It is possible that this measure may be passed in its original or a modified form, but for the present the Government could not feel free to make any drastic quota and tariff policy change. According to Rist, the Minister of Agriculture stated that complaint was already being made by agricultural interests that adequate protection was not being given to them. Rist said he replied that the farmers themselves ought to know that they are being benefitted if they get agricultural machinery in more cheaply, and that for the duty on wood to be less is to everybody's advantage because a general rise in costs, particularly in the building industry, would result from a rise in the price of wood.

Rist is going to continue to try to bring about a more liberal trade policy in France, but he is not too sanguine about favorable results at an early date. He is of the definite opinion that the press communique of today should not be taken as an indication of an immediate and great change in the trade policy of France. The Blum Government is as strongly political as it ever was, according to Rist. He greatly regrets that from a financial standpoint it does not inspire the confidence of the people. He does not believe that it would be wise to try to overthrow the present Government for political reasons.

Should

- 2 -

Should this happen, wide social repercussions might result. The best thing to do, he said, is to work toward a change of policy within the present Government's framework.

I asked Rist what measures should be taken in the circumstances. In his opinion, he said, the most essential point was for Blum to let it be known that there will not be a continued rise in Government expenditures and in French prices. So long as fear on either of these points is felt by the French people, they will not have confidence in the financial and monetary situation of the country. It would, Rist admitted, take a lot of courage for Blum to take and announce a decision radically cutting expenditures and also adopt the measures necessary to stop the rise in prices, but he feels that if Blum took such steps, he would be sustained.

With regard to the lesser technical measures, I had been told by Rist before I visited the United States, that it was wrong to penalize gold and exchange holding, as well as the inspection of bank accounts instituted to search out those liable to punishment under the October 1 monetary law. In Rist's opinion, it would not be sufficient to change these practices only, although it would still be very desirable, he said. He is not convinced that in the present circumstances the stability of the franc would be guaranteed

by

- 3 -

by "stabilization" at the present rate or at the lowest level permitted by the October 1 monetary law.

In the greatest confidence Rist admitted to me that he disapproves of both the Governor of the Bank of France and the Minister of Finance. He does not think it would be sufficient to remove Governor Labeyrie alone, since the ability of Auriol himself is doubted by the public. Rist, however, said he understands Blum's friendship for and loyalty to the Minister of Finance, and supposed he would be reluctant to make changes.

During the conversation mention was made of the rumor that in the present crisis Rist might accept a position with the Government. He said that ~~xxx~~ although he had heard some gossip about the Bank of France, the governorship had not been offered to him - that to accept this post would mean a heavy pecuniary loss for him and he had no desire to do that no matter how much people might flatter him by considering him for that post. He told me that he knew Baudouin (omission) on several occasions with regard to taking the governorship.

However, the professor insists that no matter how competent a new governor for the Bank of France might be, unless a more competent person were made Minister of Finance the new governor would have no chance to correct French financial policy. According to Rist, Auriol feels that

he

- 4 -

he has been abused and that his problems are not understood by the other ministers.

Professor Rist has the same impression of the present governor of the Bank of France that I have obtained through direct contact and through the reactions of friends of mine - i.e., as an individual he is charming but he is entirely incompetent in monetary matters, his economic theories are extremely radical, and he is disposed to play politics and destroy the morale of his own career personnel rather than undertake a study of the Bank's major problems.

I asked the Professor what help from the outside could be given France. His prompt reply was that if any loan could be ^{issued for} ~~granted~~ France, it should be issued on the market in Paris. He said there should be no loan until the situation is sufficiently good to attract French capital. The last British credit, he insisted, had merely been a bridge to help francs leave the country, and he believed it would have been better to have let francs become scarce and perhaps a reflux of capital would have been started, rather than contract a loan abroad.

Rist does not think it would be sufficient to offer advice on technical measures to either the Bank or to the Ministry of Finance. Blum alone under the present circumstances must make the major decision ~~which~~ which is needed. The best method of approach to him, he believes,

- 5 -

is from the viewpoint of foreign policy. In other words, he said the undertaking of France under the Tripartite Agreement should be stressed, and the importance to France of the good relations which have been built up through contact with the great democracies of the world. It is of the greatest importance, he said, to cut down Government expenditure, and to stop a price rise. Liberalization of French trade is advocated by Rist as the best measure to bring about the second point.

With a smile Rist remarked that some time ago there was a rumor current that he might be sent as ambassador to the United States, but that actually he had not been offered this post - which he would have considered the highest honor that his country could possibly have bestowed upon him. Several times before Bonnet went to Washington, Rist had talks with him. I have mentioned in earlier reports the great confidence which Bonnet has in Rist, and his tendency to accept Rist's advice on matters of an economic and monetary nature.

Rist told me he believe that should Bonnet send a communication to Blum, a short time after he had been ~~xxxx~~ in the United States, in which he set forth the impressions he had gained in the United States, it might have considerable weight with the Prime Minister. In Rist's opinion if such a communication recommended policies along the lines suggested

- 6 -

in this telegram, it would indeed be quite fortunate.

END MESSAGE.

WILSON.

EA:LWW

RECEIVED
MAR 5 1937
TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

*Handwritten Copy - Not sent to N.Y.
File -*

221

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FROM: American Embassy, Paris, France

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END SECTION ONE.

EA:LWW

WILSON.

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 293 of
March 2, 1937, from PARIS.

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- 2 -

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END SECTION TWO.

WILSON.

EA:LWW

RECEIVED
MAR 2 1931
TREASURY DEPARTMENT
Office of the Secretary
General Building to the Secretary

PARAPHRASE OF SECTIONS THREE TO SIX, INCLUSIVE
of telegram No. 293 of March 2, 1937, from the American
Embassy, Paris.

changes. It is possible that this measure may be passed in its original or a modified form, but for the present the Government could not feel free to make any drastic quota and tariff policy change. According to Rist, the Minister of Agriculture stated that complaint was already being made by agricultural interests that adequate protection was not being given to them. Rist said he replied that the farmers themselves ought to know that they are being benefitted if they get agricultural machinery in more cheaply, and that for the duty on wood to be less is to everybody's advantage because a general rise in costs, particularly in the building industry, would result from a rise in the price of wood.

Rist is going to continue to try to bring about a more liberal trade policy in France, but he is not too sanguine about favorable results at an early date. He is of the definite opinion that the press communique of today should not be taken as an indication of an immediate and great change in the trade policy of France. The Blum Government is as strongly political as it ever was, according to Rist. He greatly regrets that from a financial standpoint it does not inspire the confidence of the people. He does not believe that it would be wise to try to overthrow the present Government for political reasons.

Should

- 2 -

Should this happen, wide social repercussions might result. The best thing to do, he said, is to work toward a change of policy within the present Government's framework.

I asked Rist what measures should be taken in the circumstances. In his opinion, he said, the most essential point was for Blum to let it be known that there will not be a continued rise in Government expenditures and in French prices. So long as fear on either of these points is felt by the French people, they will not have confidence in the financial and monetary situation of the country. It would, Rist admitted, take a lot of courage for Blum to take and announce a decision radically cutting expenditures and also adopt the measures necessary to stop the rise in prices, but he feels that if Blum took such steps, he would be sustained.

With regard to the lesser technical measures, I had been told by Rist before I visited the United States, that it was wrong to penalize gold and exchange holding, as well as the inspection of bank accounts instituted to search out those liable to punishment under the October 1 monetary law. In Rist's opinion, it would not be sufficient to change these practices only, although it would still be very desirable, he said. He is not convinced that in the present circumstances the stability of the franc would be guaranteed

by

- 3 -

by "stabilization" at the present rate or at the lowest level permitted by the October 1 monetary law.

In the greatest confidence Rist admitted to me that he disapproves of both the Governor of the Bank of France and the Minister of Finance. He does not think it would be sufficient to remove Governor Labeyrie alone, since the ability of Auriol himself is doubted by the public. Rist, however, said he understands Blum's friendship for and loyalty to the Minister of Finance, and supposed he would be reluctant to make changes.

During the conversation mention was made of the rumor that in the present crisis Rist might accept a position with the Government. He said that even although he had heard some gossip about the Bank of France, the governorship had not been offered to him - that to accept this post would mean a heavy pecuniary loss for him and he had no desire to do that no matter how much people might flatter him by considering him for that post. He told me that he knew Baudouin (omission) on several occasions with regard to taking the governorship.

However, the professor insists that no matter how competent a new governor for the Bank of France might be, unless a more competent person were made Minister of Finance the new governor would have no chance to correct French financial policy. According to Rist, Auriol feels that

he

- 4 -

he has been abused and that his problems are not understood by the other ministers.

Professor Rist has the same impression of the present governor of the Bank of France that I have obtained through direct contact and through the reactions of friends of mine - i.e., as an individual he is charming but he is entirely incompetent in monetary matters, his economic theories are extremely radical, and he is disposed to play politics and destroy the morale of his own career personnel rather than undertake a study of the Bank's major problems.

I asked the Professor what help from the outside could be given France. His prompt reply was that if any loan could be ^{issued for} granted France, it should be issued on the market in Paris. He said there should be no loan until the situation is sufficiently good to attract French capital. The last British credit, he insisted, had merely been a bridge to help France leave the country, and he believed it would have been better to have let France become scarce and perhaps a reflux of capital would have been started, rather than contract a loan abroad.

Rist does not think it would be sufficient to offer advice on technical measures to either the Bank or to the Ministry of Finance. Blum alone under the present circumstances must make the major decision ~~which~~ which is needed. The best method of approach to him, he believes,

is

- 5 -

is from the viewpoint of foreign policy. In other words, he said the undertaking of France under the Tripartite Agreement should be stressed, and the importance to France of the good relations which have been built up through contact with the great democracies of the world. It is of the greatest importance, he said, to cut down Government expenditure, and to stop a price rise. Liberalization of French trade is advocated by Rist as the best measure to bring about the second point.

With a smile Rist remarked that some time ago there was a rumor current that he might be sent as ambassador to the United States, but that actually he had not been offered this post - which he would have considered the highest honor that his country could possibly have bestowed upon him. Several times before Bonnet went to Washington, Rist had talks with him. I have mentioned in earlier reports the great confidence which Bonnet has in Rist, and his tendency to accept Rist's advice on matters of an economic and monetary nature.

Rist told me he believes that should Bonnet send a communication to Blum, a short time after he had been away in the United States, in which he set forth the impressions he had gained in the United States, it might have considerable weight with the Prime Minister. In Rist's opinion if such a communication recommended policies along the lines suggested

- 6 -

in this telegram, it would indeed be quite fortunate.
END MESSAGE.

WILSON.

RECEIVED
MAR 2 1937
TREASURY DEPARTMENT
Office of the Secretary
Room 4000 Building 1000

MED

GRAY

PARIS

Dated March 2, 1937

Received 7:20 p.m.

Secretary of State

Washington

297, March 2, 8 p.m.

FROM COCHRAN.

Paris stock market was heavy today and exchange trading was more adverse to the franc than yesterday. Rentes declined. A general spirit of pessimism was evident. Press and market analysis of Friday night's parliamentary debate has failed to show how the Government will overcome its financial difficulties and has stressed the threat of social disorders intimated in Blum's speech. Bankers say sale of rentes is not of speculative character but is general, coming from the provinces as well as Paris, and represents a lack of confidence on the part of investing clientele. While French press and politicians obviously expect some action favorable to France to come from the reported and expected conference in Washington, bankers are not so (*) of outside help for the country.

WILSON

SMS:NPL

(*) Apparent omission

March 3, 1937

My dear Cordell:

I am inclosing herewith extra confidential memorandum which was given to me yesterday afternoon at 4:30 by Mr. Mallet of the British Embassy. This is the same memorandum of which I gave you a brief review over the telephone at about 5:15.

In view of the very confidential information contained in this memorandum I would appreciate it if you would keep it in your desk for the next ten days.

Very sincerely,

Honorable Cordell Hull,
Secretary of State.

March 3, 1937

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I am inclosing herewith extra confidential memorandum which was given to me yesterday afternoon at 4:30 by Mr. Mallet of the British Embassy. This is the same memorandum of which I gave you a brief review over the telephone at about 5:15.

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Very sincerely,

Honorable Cordell Hull,
Secretary of State.

March 3, 1937

I called on the President last evening at 5:30 o'clock and let him read the cable which I had just received from Neville Chamberlain. The President had no suggestion. I said, "The obvious thing for the French to do is to devalue the other eight percent. Do you think I should suggest it to them?" The President said, "I think it would be all right to make the suggestion provided you could be sure that they would not disclose the fact that the suggestion came from the United States." I told the President that I discussed this at length last week with Cochran and that Cochran had begged me not to make this suggestion. I told the President that I am afraid if we did make it and it went wrong, the French might blame us.

(I still think that the only way they can save themselves from immediate financial collapse is if they promptly devalue the extra eight percent.)

* * * * *

There is one way to solve this French problem which has been going through my head for two or three days, but I have not been willing to propose it yet to the President and that is that we should ask Soviet Russia to join the Tripartite agreement. With their large holdings of gold it might make just the sufficient difference to tide the French across the present crisis.

March 3, 1937.
9:02 a.m.

V-P
Garner: Good morning, Henry.

H.M.Jr: How are you?

G: I'm all right.

H.M.Jr: Ah - I want a little advice.

G: All right.

H.M.Jr: Senator Nye of North Dakota has been calling me up once a day for about a week to - there's some fellow from his own home town and he wants us to get a job for him. He used to work in the Treasury and he had a \$1200. job and they laid him off when we laid off a lot of other people.

G: Yes.

H.M.Jr: Now he's been calling me and calling me.

G: What's that, Henry, I didn't get this.

H.M.Jr: He's been calling me about once a day for a week, see?

G: Yes.

H.M.Jr: This boy - he's got him out at his house and he can't get rid of him unless he gets him a job.

G: Yes.

H.M.Jr: Now what I was going to ask you - I mean would you give it to Nye. He's putting it on a personal basis.

G: Goddamit he ain't worthy of nothing but \$1200. is little enough to get rid of any damn Senator for thirty days even.

H.M.Jr: Well your advice is you'd give it to him?

G: Yes, temporarily that's what I'd do.

H.M.Jr: Oh do it for thirty days?

-2-

G: Yes tell him by gosh you've tried for thirty days to get him off his hands but you can't agree to keep anybody like that.

H.M.Jr: I get you.

G: Yes.

H.M.Jr: I'll do just that.

G: All right.

H.M.Jr: How's Mrs. Garner?

G: Why she's getting better, thank you, Henry. She's going to get up a little while to-day.

H.M.Jr: Good.

G: Thank you very much.

H.M.Jr: Thank you.

G: Goodbye.

March 3, 1937.
9:18 a.m.

H.M.Jr: Hello.

Cochran: Hello

H.M.Jr: Hello Cochran

C: Hello Mr. Morgenthau.

H.M.Jr: How are you?

C: All right thank you.

H.M.Jr: Anything new?

C: No. You have my program of last night in regard to the Professor, did you?

H.M.Jr: No I haven't got it yet.

C: Oh I'm sorry because I sent you rather an interesting one giving a long conversation with me.

H.M.Jr: Your conversation with who?

Rist - Professor Rist

H.M.Jr: Oh - well they just handed it to me this minute. I'll have to read it and then if I've got any questions I'll talk to you later. They just gave it to me this minute.

C: I see. Do you want me to hold on or

H.M.Jr: Ah - well let me just - yes I think so. Just a second will you please.

C: All right.

(Short pause)

H.M.Jr: Hello

C: Hello

H.M.Jr: Well I read it very hastily....

C: Yes.

- 2 -

H.M.Jr:and I just came to the end about Bonnet.

C: Yes.

H.M.Jr: Well Bonnet called on me Monday....

C: Yes.

H.M.Jr:and when he left he certainly had no delusions
as to how I felt.

C: I see.

H.M.Jr: Hello

C: Yes

H.M.Jr: And he must have gotten off a cable right after that.

C: Yes.

H.M.Jr: Ah - but that was Monday afternoon.

C: And you see the Prime Minister came out at the
luncheon for the British Ambassador saying that they
intended to adhere to the tri-partite agreement.

H.M.Jr: Yes.

C: But here I still don't see what they're doing to
maintain that adherence.

H.M.Jr: Yes.

C: That's still the problem.

H.M.Jr: Yes, well I just wanted to talk to you and I didn't
know whether there was anything new or not. We
can't understand this quiet except it's a calm before
the storm.

C: I mean it's a little quiet now following Sunday.

H.M.Jr: Yes.

- C: Although yesterday they lost quite a spot of sterling.
- H.M.Jr: Yes.
- C: They're - they're playing up an item in the press to-day - a report from saying that for the last four days there's been no gold imported from France.
- H.M.Jr: Yes.
- C: The first time for some period. The situation is simply that they're sending sterling instead of gold.
- H.M.Jr: Yes, well when are they going to stop kidding themselves?
- C: I don't know. That's - that's what everyone prays for.
- H.M.Jr: Yes.
- C: I mean until they take some definite measure they can't calm the people who are buying foreign exchange.
- H.M.Jr: Ah-ha.
- C: And everyone's afraid that they're going to wait until they're just in desperate circumstances.
- H.M.Jr: Yes.
- C: And the Radical Socialists in the government are not ready to break with them yet.
- H.M.Jr: Yes. Two things I wish you'd do for me -
- H.M.Jr: Hello
- C: Hello
- H.M.Jr: Two things I wish you'd do for me.
- C: Yes.
- H.M.Jr: When do their big tax payments come in? I - Bonnet mentioned it and I didn't get it quite straight.

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- C: The ones they have to make or the ones due them?
- H.M.Jr: The ones that they have to receive.
- C: That they have to receive.
- H.M.Jr: Yes, I'd like to know when that date is and how much it will be about. How much they expect, you see?
- C: Well there's no special big item except they hope for the taxes to pay in better beginning in May.
- H.M.Jr: Well yes but - yes but he kept referring to some date.
- C: I don't - I'll check up and - and put it in my wire here
- H.M.Jr: All right.
- C:any big special that's due. I don't know anything special that's due them.
- H.M.Jr: All right. Now one other thing.
- C: Yes.
- H.M.Jr: Mrs. Morrison Shafroth. S-h-a-f-r-o-t-h
- C: Yes.
- H.M.Jr: She sailed on the Paris. She's a great friend of Mrs. Morgenthau's.
- C: Yes.
- H.M.Jr: And her husband is the Chief Counsel for Internal Revenue.
- C: Oh yes yes.
- H.M.Jr: Now I wish you'd tell Waite that when she gets there He'd offer to do anything that he can and I'd appreciate anything that you can do.

C: Oh I'll be delighted to, yes.

H.M.Jr: Her - her daughter is in Paris. She's going to stay there for - she just - Mrs. Shafroth is just going to be in Paris a week I think and then come right back.

C: I see.

H.M.Jr: And you might ask Wait if he'd find out when the boat train comes in from Paris if he'll go down to the station and meet her see.

C: All right, I'll be glad to go down too.

H.M.Jr: And see if there's anything that you can do. She's very nice and she's a great friend of Mrs. Morgenthau.

C: Fine, well we'll both do everything we can.

H.M.Jr: All right, thank you very much. She's only going to be there - she's trying to find some place that her daughter can stay for two or three months in Paris.

C: I see.

H.M.Jr: Yes.

C: And is that all?

H.M.Jr: That's all.

C: Well here to-day the market opened a little quiet.

H.M.Jr: Yes.

C: But it usually stirs up after lunch.

H.M.Jr: I see.

C: I had a talk with De Castellane this morning.

H.M.Jr: Yes.

C: You know the bankers....

H.M.Jr: I know him. I know who he is.

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C: Yes, well I'll put it in a cablegram.

H.M.Jr: All right.

C: Its not very exciting.

H.M.Jr: All right - ah - all I - hello

C: Hello

H.M.Jr: Ah - I just want to tell you this - ah - you know your estimate that you gave me of the time factor - hello

C: Yes.

H.M.Jr: You know you gave me a time factor?

C: Yes.

H.M.Jr: Well - ah - certain friends of ours just cut what - the number of weeks that you've put it they've just cut it in half.

C: Is that so?

H.M.Jr: Yes.

C: Well this man this morning that I was just talking about....

H.M.Jr: Yes.

Cochran:said that some of his friends put it between two and three weeks

H.M.Jr: No, well..

C:and some say longer.

H.M.Jr: Well these friends of ours say this week.

C: Is that so.

H.M.Jr: Yes, so you better be extra on your toes.

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- C: Ah - there's just one thing - ah - could I go to Basel this week-end; there's a bank meeting there on Sunday.
- H.M.Jr: Well let's see. When would you have to leave Paris?
- C: Make arrangements right to the end as I have before.
- H.M.Jr: When would you leave Paris?
- C: I'd leave here Saturday night at 10 o'clock.
- H.M.Jr: That's all right and look....
- C: And I'd plan to get back on Tuesday morning.
- H.M.Jr: Well leave word at the Embassy so if I called the Embassy they'd know where I could reach you on the telephone.
- C: All right and when - once before I came back - I was just there on Sunday and took the Sunday night train....
- H.M.Jr: Yes.
- C:so I could always do that if it were urgent.
- H.M.Jr: All right.
- C: All right. There's one thing.
- H.M.Jr: Yes.
- C: Do you think I ought to call up call up Houeff and just go over and see what's going on.
- H.M.Jr: No.
- C: You think I should stay away.
- H.M.Jr: I - I think so. Yes, I'd stay away. There's nothing we could do.
- C: I said they were going to get in touch with me.

- 8 -

H.M.Jr: Well you're not the only person they're not getting in touch with.

C: Is that so?

H.M.Jr: Yes, they're bigger people than (laughs) relatively in position than you across the channel that they haven't gotten in touch with either.

C: Well - well let's sit tight then.

H.M.Jr: Do you understand what I mean?

C: Surely - surely.

H.M.Jr: Yes.

C: Then I shall just sit quiet unless they call.

H.M.Jr: O.K.

C: Fine.

H.M.Jr: Thank you.

C: All right, sir.

H.M.Jr: Goodbye.

C: Goodbye.

OFFICE CORRESPONDENCE

DATE March 3, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF FRANCE

Mr. Cariguel called me at 11:55 with reference to shipments of gold to New York by parcel post; he stated that these shipments were going forward on a considerable scale and he would like to know what could be done to stop it. There were three shipments coming through Paris today, he said, one by Mocatta & Goldsmid of 52,500,000 francs, mostly consigned to the Banque Belge in New York, another one of 34,500,000 francs by Samuel Montagu & Co., consigned to J. P. Morgan & Co. There was also a small shipment on the way consigned to Chase Bank. All these represented gold sent from London to Paris with instructions that the gold be forwarded to New York by mail. I replied that our attitude in the matter was made clear about ten days ago when Montagu consigned a shipment by parcel post to us and we flatly refused to handle it. I added that I had also, some weeks ago, discussed this matter with the Treasury in Washington and had been given to understand that they would take it up with the Postmaster General and let me know whether anything could be done. Cariguel continued that he had checked into the matter and found that since November 11, 1936, the total of gold shipped through the mail amounted to \$84,000,000 francs, some of it from Switzerland and some from London. These shipments of course completely upset the gold points; in addition they were "a gross abuse of government services" and also of arrangements which the shipping companies had with the governments.

I asked Cariguel, firstly whether it was not true that the

OFFICE CORRESPONDENCE

DATE March 5, 1937.

CONFIDENTIAL FILES

SUBJECT, TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF FRANCE.

- 2 -

insurance companies had refused to cover the risk on shipments through the mail. He replied that was true after a fashion, but there were still available a number of open policies which had not as yet been canceled and besides some continental insurance companies were willing to do the business. He was, however, looking into this angle of the matter. Secondly, I asked whether the French themselves could not stop these shipments as we here had done long ago on shipments from this country. Cariguel replied that this was very difficult because France was probably bound by international agreement. Nevertheless, he was drafting a long letter to the Ministry of Finance, asking them to take steps. Since any such action, however, would, at best, be a slow affair, Cariguel wondered whether we would think it possible to talk to the banks in New York to whom the gold was consigned and to suggest to them that they refuse to take part in this traffic. He felt, he continued, that if we talked to Morgan and the Chase Bank, or, for that matter, to the Banque Belge too, they would be perfectly willing to cooperate. I replied that there was no doubt in my mind as to that but that I could not help remembering our experience in 1935, when we suggested to the banks that they refrain from making shipments from here of gold coin. Every one of the banks loyally and wholeheartedly cooperated, with the unfortunate result, however, that some outsiders, less scrupulous, stepped in and handled, with profit, to them^{selves}, the business that the banks had refused. If we talked to any banks at all, it seemed to me, we would have to speak to all of them, as otherwise, a situation might develop in which the Chase, for instance, advises ~~McCatta~~ or ~~Montagu~~

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE March 8, 1937.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE

L. W. Knoka

- 3 -

that they won't receive such shipments, and the latter thereupon approaches the Guaranty which, not knowing of the Chase's refusal, might be willing to act. However, this was a question which I would have to discuss with Mr. Harrison, who would not be back until tomorrow, and probably also with the Treasury. I would think this matter over carefully and let him know what steps we had decided upon. Cariguel in turn promised that he would advise me as to the effect of his letter to the Ministry of Finance.

I then inquired about market conditions and Cariguel stated that they had had a pretty heavy day yesterday and rather a bad one today, although not quite as heavy as yesterday. Their gold losses yesterday amounted to £1,500,000, on Friday to £2,000,000 and on last Thursday to £1,500,000. I inquired how long that could continue and Cariguel replied that he had asked for instructions. He inquired whether Europe was still investing money in Wall Street and I told him that after Europe, for a number of days, had shown no interest in our securities, indications this morning were to the effect that they had resumed their purchases, probably as a result of yesterday's successful negotiations between the steel industry and the unions.

LWK:KMC

March 3, 1937

Excerpt from Mr. Magill's memo to the Secretary,
"MEMORANDUM ON DAY'S ACTIVITIES MARCH THIRD":

2. Flow of foreign capital

At your suggestion I went over the situation with Mr. Riefler. I suggested that Mr. Riefler endeavor to make it clear to foreign governments that we were not primarily interested in securing additional taxes from non-resident aliens and that we felt the flow of nervous foreign capital to this country was a major problem for the foreign countries involved, quite as much as it is a problem for us. Mr. Riefler felt that he could do a good deal by informal conversations with the foreign fiscal officers.

MEMORANDUMON RAILROAD RETIREMENT SITUATION

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recd. 3/3
 from [unclear]
 at 4:15 PM
 [unclear]
 [unclear]

1. The Background of the Present Act

In hearings before Senate and House Committees on the present Railroad Retirement and Carrier Taxing Acts, the statement was made by Mr. Eastman and by the undersigned that the cost of the benefits would be, expressed as a level percentage of the payroll, approximately 10 percent. Mr. Eastman's statement was based on data supplied by the Railroad Retirement Board.

The legislation was sponsored by the standard railway labor organizations. A committee of the Railway Labor Executives' Association was active in drafting the bill and securing its enactment. The chairman of the committee had no previous experience with similar legislation. While cost data were presented, as indicated above, to the Committees on Interstate Commerce in both House and Senate, no particular attention seems to have been paid to them, apparently on the theory that revenue raising was outside the jurisdiction of the committees considering the benefit parts of the legislation. The import of the cost testimony was not grasped by the sponsors of the legislation and the tax bill as introduced provided for a levy of 6 percent of payroll. This was the initial rate provided in the first Railroad Retirement Act, but the Railroad Retirement Board was given authority to change the rate if and when it became necessary; it would, beyond question, have been necessary had that Act operated as enacted.

The figures presented showing the costs to be 10 percent of the payroll were disputed. As a compromise, a levy of 7 percent was agreed upon for a period of one year. A Railroad Retirement Investigation Commission was created with the duty, among others, of ascertaining costs. The labor organizations agreed to abide by the findings of fact: if the benefits cost more than the revenue which was provided, either they would attempt to secure more revenue, or, if that was not possible, they would not oppose a reduction in benefit costs.

The Investigation Commission was unable to make any findings. Shortly after the Commission expired, some 134 Class I railroads, the Pullman Company and two express companies (later some 16 employees and 200 other railroads and other carriers intervened) filed a bill of complaint in the Supreme Court of the District of Columbia (now called the United States District Court) alleging that the Railroad

Retirement and Carrier Taxing Acts were inseparable parts of a single legislative scheme; that that scheme was essentially the same as the Railroad Retirement Act of 1934; and that since that Act had been held unconstitutional, the two new Acts taken, as they must necessarily be, together, must also be invalid. The plaintiffs prayed for relief in the form of injunctions against collection of taxes and information, and against certification of annuities to the Treasury.

After an extended hearing, the Court, on June 30, 1936, handed down an opinion in which the two Acts were found to be inseparable parts of a single legislative scheme which was substantially identical to the first Railroad Retirement Act. The Court refused, however, to enjoin certification of annuities presumably on the ground, not expressed directly in the opinion, that the plaintiff would not be harmed by the payment of annuities to employees who had retired from their service. The Commissioner of Internal Revenue, however, was enjoined from collection of taxes from the plaintiffs or from taking any steps looking to that end; and the Railroad Retirement Board was enjoined from compelling the plaintiffs to compile and furnish information at their own expense. The right of the Board to examine the plaintiffs' records at its own expense was expressly upheld.

The members of the Retirement Board discussed the advisability of paying annuities, without corresponding revenue, with officials of the Treasury and Justice Departments, the Secretary of Labor, members of the Social Security Board, and the President. There was general agreement that the annuities must be paid. On July 13, 1936, following Board certification, the first annuities were paid by the Treasury.

Attitude of Railroads Toward Retirement Legislation as Conditioned by Voluntary Pension Plans

Although substantially all the major railroads of the country joined in the litigation contesting the constitutionality of the retirement legislation, a considerable number did not oppose the legislation in principle, and, apparently, some important interests favored it. The determining factor in carrier attitude related to the maintenance and types of voluntary pension systems. The Pennsylvania, for example, has a relatively liberal pension system; in 1935 pension expenditures were 4.7 percent of the payroll. Actuarial valuations made for the Pennsylvania indicate, I have been told, that the actual costs on a reserve basis are running as high as 8 or 9 percent of the payroll. The Railroad Retirement Act benefits are, for the most part, individually no larger than those of the Pennsylvania voluntary plan and are payable in respect of all employment, whereas the Pennsylvania benefits are payable only to employees who remain in service until retirement age. The

Pennsylvania voluntary plan, however, is supported entirely by the company, whereas half the cost of the Railroad Retirement Act is borne by employees. It may be cheaper for the Pennsylvania to pay for half of the more liberal plan than for all the cost of its own plan; it unquestionably would be true if the costs of the more liberal plan were based on an age group younger than that of Pennsylvania employees. The saving to the Pennsylvania under the present Railroad Retirement Act and Carrier Tax Act would probably be not less than \$10,000,000 a year.

The New York Central also maintains a voluntary pension plan. While the individual benefits are about as large as those of the Pennsylvania, the rules concerning eligibility are much more strict. The Pennsylvania carries to retirement age many employees who are unable to continue in service because of disability and gives them pensions at retirement age. The New York Central retires considerable numbers of men at age seventy without any pension because of breaks in service. The strike of 1922 has resulted in forfeiture of pensions by large numbers of men on the New York Central. The Pennsylvania plan has no continuous service requirement and interruptions in service on account of strikes or other reasons do not result in loss of pensions. Consequently, the cost of the New York Central plan has been much less than of the Pennsylvania, running in terms of current disbursements to only about 2.5 percent of the payroll in 1935. On a reserve basis costs would probably not be less than 5 percent of the payroll. The maintenance of a Government plan would deprive the New York Central of its ability to use a pension system as a weapon against strikes and in similar ways. While there can be little doubt that the New York Central would save through the operation of a Railroad Retirement Act, the economy would be much less than in the case of the Pennsylvania and, taken in conjunction with the other uses to which the plan has been put, serves to explain the opposition thus far to the Railroad Retirement Act on the part of the New York Central.

There are still other railroads which maintain no pension systems at all, such as the Southern Railroad. It seems doubtful whether the costs of a Railroad Retirement Act represent new costs to these roads since most of them have large numbers of men at advanced ages in their service whose efficiency, relative to the pay which they receive, is low. But, nevertheless, most of these roads have apparently been hostile to the Retirement Act. These three examples represent perhaps the range of practice with respect to voluntary pension systems and give fairly typical examples of the attitude of carriers toward the Retirement Act so far as cost aspects are concerned.

3. Relation of Titles II and VIII of Social Security Act to Voluntary Pension Plans

Most railroad managements which have maintained pension systems have realized and been frank to state that the effective operation of transportation service was thereby facilitated. If there were no Railroad Retirement Act, the railroads would, of course, be subject to Titles II and VIII of the Social Security Act; during the last few months railroads have begun to study the effect which these titles would have on their voluntary plans. The monthly benefits under Title II of the Social Security Act do not, of course, begin until 1942 and will not for some years permit any material reduction in the benefits payable in the voluntary plans. Taking the payments which would be necessary under the private plans and the taxes payable under Title VIII, many railroad managements have not been able to see that their position is bettered as compared with a legislative railroad retirement scheme, provided there was involved no more than what they regard as a reasonable cost. (The relief afforded to the railroads by the Security Act would have been materially different had the liabilities under the voluntary plans been funded and if current charges were being made in respect to accruing liabilities.) The injection of the Social Security Act into the picture, therefore, has had a material influence in changing the attitude of the railroads toward a railroad retirement system, and has made them more willing to attempt to work out a system which would be mutually satisfactory to themselves and to their employees.

4. The Negotiations

Late in November the Railroad Retirement Board submitted to the President some of these facts and suggested that he address a communication to representatives of both railroad managements and labor organizations, urging "the desirability of a conference between representatives of the railroads and railroad employees to consider the retirement problem and attempt to find a satisfactory solution." This suggestion was adopted by the President and a letter embodying it was sent out by the President on December 28, 1936.

Almost immediately thereafter, committees were appointed by the Association of American Railroads and by the Railway Labor Executives' Association who were authorized to work out a mutually agreeable plan but who were without authority to bind their principals. The conferees were, however, to recommend the adoption of a plan and a procedure for its establishment and maintenance. The conferees understood that any plan agreed upon between them would be subject to review by governmental agencies involved and would, of course, receive the same scrutiny by congressional committees and be referred by them to such agencies as would be the case with any other legislation.

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In his letters, the President had stated that: "The Railroad Retirement Board has collected a wealth of information bearing on the problems which would be considered by such a conference and has in its possession all the relevant records compiled by the Federal Coordinator of Transportation. Its technical facilities can doubtless be of much value to such a conference and I am, therefore, requesting the Board to offer assistance in arranging for a conference, to make its information available and to render whatever aid it can to the conferees." The conferees, therefore, asked that the Retirement Board's actuarial staff make valuations of various plans which were under consideration.

The representatives of the carriers were anxious that any system adopted be such that (1) the costs would not exceed 7 percent of the payroll; and (2) the burden of the present pension rolls would be absorbed by the new system. The labor organization representatives were insistent that (1) the individual benefits of any new scheme be not less than those of the present Railroad Retirement Act; (2) full benefits be available at the option of the employee at the beginning of age 65; (3) individual benefits be no less in any case and materially larger in most cases than those under the Social Security Act; and (4) the system be operated by the Government.

Under the present Railroad Retirement Act, while no compulsory age of retirement is prescribed, the provisions were so arranged to put considerable pressure on employees to retire at age 65 and the carriers are free to impose compulsory retirement restrictions. The figures on the cost of the present Act, referred to at the beginning of this memorandum, were based on an assumed rate of retirement which was substantially equivalent to a uniform compulsory retirement age of 65. Subsequent studies have cast doubt on this assumption. If the assumption were true, it would mean the immediate retirement of 4 percent or more of railroad employees including perhaps a majority of officials, as well as great numbers of others holding important posts. While many older employees could be retired at no loss, or perhaps a gain to the service, the retirement of all could be accomplished, if at all, only over a period of years. The majority of the railroads (in terms of employers) have regularly retired all employees upon attainment of age 70. Assuming that practice to be continued, these later analyses point to the conclusion that an average age of retirement of 67½, for employees retiring after 65, would be conservative. If this assumption were used, the cost of the present Retirement Act would be about 8½ rather than 10 percent of the payroll.

Early in the negotiations it became apparent that the reconciliation of the opposing views of the carriers and labor organizations would be accomplished only by making conditions of retirement such that

employees in good health would continue in service materially after age 65. The first Railroad Retirement Act was motivated largely by a desire on the part of railroad employees to force older men out of service, both in order to give advancement all along the line and to afford employment for considerable numbers who were wholly or partially unemployed. In the light of subsequent events, this desire to remove all employees over age 65 appears to have been a temporary phase in the situation. The marked rise in railroad traffic revenues has resulted in many advancements and promotions, has afforded full time employment for most employees who were working part time, and has resulted in the re-absorption in active employment of substantially all those on reserve lists. Most railroads have been employing new employees this year for the first time since 1929. There seems to exist a considerable opposition on the part of employees to the arbitrary rules forcing retirement at age 70. The average compensation of employees who attain old age in railroad service has been, for the past year, about \$150 per month. The average annuity has been about \$65 per month, and may when final settlements are made, average \$70 or \$75 per month. While these are, as annuities go, rather liberal, there are numbers of railroad employees in good health, who would prefer to continue at work rather than suffer the reduction in income. In the absence of any compulsion, such employees would, of course, remain in service. A number of the railroads which have never enforced compulsory retirement at age 70 also appear to be opposed to so doing.

It was finally agreed by the conferees that the Railroad Retirement system itself should contain no provision looking toward compulsory retirement. The carriers on their part further agreed to abolish the present compulsory age for retirement and to retire employees after age 65 only for disability and incompetence. These agreements will have, of course, a very vital bearing on retirement ages and on cost.

Under those present voluntary pension systems which provide for optional retirement at 65 and compulsory retirement at age 70, the average age at retirement has been about 69½ years. The average age at retirement among non-disabled employees where there has been no compulsory retirement age has been between 70½ and 71 years. It has been thought conservative, therefore, in calculating the costs of a plan having such retirement provisions, to use an average age of retirement among healthy employees of 70 years. This means an average age of retirement for those retiring when over age 65 of approximately 70 years, or an average age of retirement of all employees of about 69½ years. These assumptions, if true, would involve an increase in the rate of retirement which has existed under voluntary plans of, at ages 65 and over, 50 to 75 percent.

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Three other changes having the effect of reducing costs as compared with the present Railroad Retirement Act were agreed upon as between the conferees.

1. Under the present Act, full benefits are payable to any employee retired by a carrier because of disability. Disability may be of a relatively minor character or it may be applicable only to the specific occupation in which the employee was engaged. It is now agreed that in the event of retirement before age 65, annuities will be paid only to employees who are permanently and totally disabled for any gainful employment. Under the present Act, disability annuities cease only upon the re-entry of the annuitant into railroad service. There is no provision for periodical proof of continuing disability. Under the new arrangement, continuation of the annuity is to be based upon continuance of the disability and the annuity ceases upon the recovery of the annuitant or his entry into any gainful employment.

2. At present, any person who is an employee on or after the date of enactment receives credit for all of his service prior to the enactment date, no matter what the length of his subsequent employment. It is now agreed that persons not in an employment relation on the date of enactment who subsequently re-enter service will receive no credit for prior service. Employees who sever their connections with the railroad industry before reaching retirement age also forfeit prior service credits.

3. Annuities are now payable to employees who retire from railroad service, irrespective of any employment elsewhere. Should the agreement be adopted annuities will not be payable in periods in which the annuitant is engaged in regular gainful employment.

Another development which has had a bearing on cost is the rise in the payroll due to increased employment. The 10 percent figure was based on a payroll for all railroads of \$2,000,000,000. The average payroll during the last ten years has been \$2,350,000,000, and the payroll has been as low as \$2,000,000,000 in only three years since 1916. At the present time the payroll is running at \$2,200,000,000 annually, and railroad managements are estimating a 10 to 15 percent increase during the current year. It seems reasonable to estimate the payroll for the future at \$2,200,000,000. Under the Railroad Retirement Act, the accrued liability is substantially fixed in terms of dollars. The level percentage of payroll method contemplates not a complete amortization of the liability, but, as in the Social Security Act old age benefits system, interest is paid

on the liability. Since the liability is fixed the interest will also be fixed, and becomes smaller as the payroll increases. The rise of the payroll estimate from \$2,000,000,000 to \$2,200,000,000 results in a reduction in cost of approximately 1/4 of 1 percent of the payroll.

In addition to the changes in the plan which have just been enumerated, there was another which would probably have an important effect in limiting costs. Under the present Act, employees are given the option of electing a joint and survivor annuity at the time of making application for their own annuity. The Act contains no limitation on the amount of annuity which the employee may elect to receive himself as against the amount payable to the spouse. The Board has attempted by administrative regulation to limit the adverse selection which could easily arise in a provision of this sort, but it is doubtful whether such selection could be eliminated entirely. It is now agreed that the election to take or not to take a joint and survivor annuity must be made at least five years prior to retirement and will not be available to employees retiring by reason of disability. The options are limited to three and in no event may an individual elect to have his wife receive more than he himself does. It is believed that the new provision will substantially eliminate any adverse selection.

One change was agreed upon which, if accepted, will increase costs slightly. The present Act attempts to provide annuities for all persons in employment or having an employment relation to a carrier. The term "employment relation," however, is defined so as to require not only those employees to hold rights under agreements, but requires also that such persons be ready and willing to serve, which means that a good many bona fide employees are left out of the scheme because of permanent and total disability. This result was not intended and it is now agreed that such persons are entitled to benefits of the Act. Their inclusion adds about 7/100 of 1 percent to the payroll costs.

5. Costs

The actuarial staff of the Board has calculated that the cost of providing benefits of the Railroad Retirement Act modified as outlined above would be, including expenses of administration, 6.79 percent of the taxable payroll. (In both Retirement Acts and in the proposed plan, compensation in excess of \$300 to an individual in any one month is disregarded.) This procedure is based on the payment of interest at the rate of 3 percent per annum on an unfunded initial liability.

As indicated above, those carriers which maintain pension systems have felt that they ought not to be compelled to carry the costs of pensions under such systems and in addition pay a share of the annuities for the large number of old employees on roads without systems, who would in all probability be retired immediately. Calculations have been made by our actuarial staff as to the liabilities for employees 65 and over and for those on pension rolls, road by road, as of January 1, 1932.¹ On that date the Pennsylvania Railroad, for example, would have had a liability for benefits calculated according to the Retirement Act to employees 65 and over (all of such employees being under age 70) of 11.45 percent of the payroll. On the Milwaukee there was a liability of over 27 percent for employees between 65 and 69, and a liability of 14 percent for employees 70 and over, a total of over 41½ percent. The liability expressed as a percentage of payroll for Pennsylvania pensioners was 31½ percent as compared with less than 1 percent on the Milwaukee. Unless the new system provides for taking over the Pennsylvania pensioners, the Pennsylvania would not only have to pay all the cost of such pensions but would in addition help to carry the burden of the old Milwaukee employees. Taking all the roads having pension systems together, the liabilities for active employees would be relatively only 60 percent of the liabilities for those roads having no pension plans. By adding in the pensioners, these inequalities would, taking the groups as a whole, be approximately offset. There would, of course, still remain considerable differences in any comparison involving individual railroads. The carriers themselves, however, appear to be satisfied as a group to have the pensioners taken over, and will apparently not raise individual questions. The cost of the present pension rolls would be .32 percent of the payroll. This represents the interest on the accrued liability with respect to these rolls since their assumption, by the system, would have the effect of merely adding to the accrued liability. The total cost of the plan, including the provision for present pensioners, would therefore run to 7.11 percent of the payroll.

The committee representing the railroad managements was willing to agree to a charge on the payroll, for the support of a retirement system, of 7 percent, of which employees would pay for one half. They felt, however, that because of the low initial tax rates under Title VIII of the Social Security Act difficulty might be experienced in persuading all the carriers to go along for the plan. Since they wish to make certain of the permanency of the plan once it is inaugurated, they wish to secure a definite written commitment from all the carriers binding them not to institute any litigation. The belief

¹This date was used because of the fact that it was the only date for which age and service records were available on a large number of individual roads.

was expressed that if initial taxes were fixed at 5 percent, rising by $1/3$ percent each three years to 7 percent in 1949, the desired result could be achieved. Such a tax plan would yield the same revenue, taking interest into account, as would a level 6.60 percent of the payroll.

The suggestion had been made that a Railroad Retirement Act might be regarded as composed essentially of two parts, the first part consisting of the benefits equal to those which would be paid to railroad employees under Title II and the taxes which would be paid by them and their employers under Title VIII of the Social Security Act, and the second part, a level of benefits with taxes sufficient to provide those benefits. This would mean that in calculating the cost of a Railroad Retirement Act, benefits equal to those under Title II of the Social Security Act would be regarded as provided by the taxes under Title VIII.

Under the Social Security Act, railroad employees will receive much more in benefits than the taxes which are payable by them and their employers. The total differential will probably run in excess of one billion dollars, having a present value of from 350 to 500 million dollars. This disparity between benefits and taxes is in general true as respects present employees in any industry. It is particularly true with respect to railroads, however, because of the relatively advanced age of railroad employees. The ultimate level of taxes under Title VIII is higher than the level which would be required for new entrants into the industry so that the deficit in respect of present employees is offset by the overcharge for new entrants. There will be some overcharge in the railroad industry, but it is smaller than for other industries because of the fact that the average age of entry into railroad service is higher than it is in other industries. So far as we are aware, the railroad industry maintains higher minimum ages for major types of employment than any other industry. For example, employees will not be hired for train and engine service at ages under 28. We have made a number of measurements for railroad employees as respects the disparity between benefits and taxes and have arrived at the general conclusion that the value of the disparity or "differential" is equivalent to a level 3.58 percent of the payroll. Measurements of course are subject to a considerable margin of error since in the final analysis the differential ought not to be based on costs within the railroad industry alone, but assumes the finality also of the present tax rates in Title VIII as accurate indexes of total costs. Making allowance for this wide differential, the cost of the Railroad Retirement Act is 3.68 percent of the payroll, which is slightly less than the taxes at the step rate already mentioned.

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There are appended hereto copies of a letter from the Railroad Retirement Board to the Social Security Board, and a letter from the Social Security Board to the Railroad Retirement Board, both bearing on the matter of the differential.

The preceding discussion has implied the creation of a separate railroad retirement fund (or at least no mingling into the old age reserve account of taxes paid by railroads and their employees). The same result could be achieved if the Carrier Taxing Act carried, not all the taxes to be levied on the industry, but only that part in excess of those in Title VIII. These excess taxes would pay for the benefits under the Railroad Retirement Act in excess of those which would otherwise be payable under Title II. It would then be reasonable for the Railroad Retirement Act to call for appropriations to the Old Age Reserve Account of such amounts as are required, on a reserve basis, to meet the payments under the Railroad Retirement Act. The sum of the two appropriations - the one for Title II and the other for Railroad Retirement - would then equal the total taxes collected under Title VIII and the Carrier Tax Act, less administrative expenses. This procedure would meet the specifications laid down by the Social Security Board.

The taxes under the present Carrier Taxing Act began on March 1, 1936, although, of course, because of the injunction, the amount of taxes collected thereunder has been negligible. Both parties to the negotiations have agreed that, if possible, the taxes under the new arrangement should begin on January 1, 1937; the labor organizations were reluctant to agree either to the January 1, 1937 date or to the step rate arrangement. But they felt that the most important consideration was the achievement of a plan which would not be further tied up in the courts. At the final meetings it was definitely indicated that there would be no agreement and that the litigation would be pressed unless the lower taxes were adopted. It was understood that the Government had not consented to the arrangement, but failure to consent would, of course, abrogate the agreement and, for an indefinite period, put the Government back into the position of paying out annuities with no revenue.

In making calculations on the above basis, the costs are in respect of a system beginning on January 1, 1937, with allowance for payments made or due for 1936. Total administrative expenses to February 28, from the date of beginning operations were \$1,500,000 and annuity payments made to the same date were \$1,600,000. Payments are now being made to 3,600 individuals and a total of 9,250 employees have notified the Board of retirement. Many of these were retired during part of 1936 and when settlements are made they will receive annuities therefor. We estimate that the total payments for annuities in 1936 when final settlements are made, and for administrative expenses, will not

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exceed \$7,500,000. An account has been taken of that amount in calculating costs. If taxes were collected back to March 1 at the 3 $\frac{1}{4}$ percent rate, the cost figures which are included herein could be reduced by about 0.17 percent of payroll since the receipt of such revenue has not been contemplated.

March 3, 1937

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

March 4

Mr. Bates went to work in the Disbursing Office
this morning. ~~Mr. Allen had a job that would run
for 45 days, salary \$1,440.~~

G. Callaway

?
get record

MEETING WITH EXECUTIVE COMMITTEE OF
FEDERAL RESERVE OPEN MARKET COMMITTEE

March 3, 1937.
11:00 a.m.

Present: Mr. Lochhead
Mr. Harris
Mr. Haas
Mr. Bell
Mr. Harrison
Mr. Burgess
Mr. Goldenweiser
Mr. Chester Davis
Mr. Szymczak
Mr. Piser
Mr. Sinclair
Mr. Eccles

H.M.Jr: Burgess, was the statement in the paper correct that the dealers got quite a lot of our bills Monday?

Burgess: They got seventeen million of the longer bills against our maturity of about sixteen. They got about twelve million of the shorter bills. Didn't get so many.

H.M.Jr: Have they sold them all?

Burgess: They have sold all the longer ones, and they won't have any trouble with the short ones.

H.M.Jr: Well, isn't that rather unusual - for dealers to buy bills?

Burgess: Oh! No. They regularly take some.

H.M.Jr: Do they?

Burgess: Yes, they always bid.

H.M.Jr: How much did the System have?

Burgess: We had sixteen million maturity which we replaced with the longer ones.

H.M.Jr: Yes.

(Mr. Eccles comes in.)

H.M.Jr: What is the tone of the Government bond market?

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- Burgess: Well, it is extremely quiet - very little trading - and it has been a little soft. I think that is partly the new issue, the expectation of the announcement of the new issue, and the fact that they are talking about it and discussing it. I think it is partly a general expectation that over a period money rates will be a little firmer. So it is a little soft, particularly the notes. The bonds have been a little soft the last few days.
- H.M.Jr: Have they at all been disturbed by a thing like the Wagner Housing Bill? Has it disturbed them at all?
- Burgess: Never heard it mentioned.
- H.M.Jr: Railroad retirement?
- Burgess: No! No!
- Eccles: Haven't got that analysis of the Wagner Bill.
- H.M.Jr: Well, the Wall Street Journal today carried it. I don't know where they got it, but they got it all right.
- Burgess: No, the market is counting on you to retire at least a billion and a half of the Federal debt during the coming year.
- H.M.Jr: Well, they better not be too sure. How much?
- Burgess: A billion and a half. That's about right, isn't it?
- Harrison: I was wondering why you (H.M.Jr.) let that go past.
- Burgess: And what about the retirement?
- H.M.Jr: Well, after what they did to Treasury yesterday, I don't know how you (Bell) feel, but I feel as if I had been dragged through a keyhole.
- Well Burgess I haven't talked to anybody this week so I am relying entirely on you. What does it look like? What is best?
- Burgess: It looks like putting out some more of the 2 $\frac{1}{2}$'s 49-53 at a premium which ought to be determined the last day.
- H.M.Jr: Saturday?
- Burgess: Yes. Now they are quoted at 101 10-11. They have been a little bit weak. They have gone off from 101 $\frac{1}{2}$ which they were a few days ago. But on that basis you could - if you were doing it today, you could sell

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them at a half point premium, or you could do the equivalent - giving them interest until April 15th if you wanted to.

- Eccles: Well, half a point premium would - let's see, that would give them a profit on these bonds.
- Burgess: Well the interest
- Eccles: About 25/32nds wouldn't it?
- Burgess: Well, you would have to deduct from that the 8/32nds interest from March 15th to April 15th, a quarter of a point interest.
- H.M.Jr: We've got it here if you want to see it.
- Burgess: I mean last night 8/32nds - if he offers them at 24/32nds with the extra month's interest, why there is three quarters of a point. Without the extra month's interest there is just 16/32nds.
- Eccles: What are the rights selling for?
- Burgess: 101 bid price. That is awful low. The rates are up as high as 101 5 and 6. We sold quite a number last week at 101 5 and 6.
- H.M.Jr: Sort of pleased with yourself! Maybe that's why they are down.
- Burgess: No, we stopped selling as soon as they started going down.
- H.M.Jr: How much have you got left?
- Burgess: Thirty-five million. We have been anticipating it so we have a distribution of our replacement rather than taking it all at once.
- Eccles: We have over fifty million of those 2 $\frac{1}{2}$'s don't we?
- Burgess: Nearly fifty million - forty-six or-seven, I have forgotten the exact figure.
- Bell: How much notes you got left, you say?
- Burgess: About thirty-five million.
- Eccles: We can exchange them though now. We had just decided not to. We are not prohibited from exchanging.

- H.M.Jr: What do you mean, Marriner?
- Eccles: See, we have been selling and buying. Now we have exchange direct with the Treasury.
- Szymozak: Since the Banking Act of 1935. We finally got the opinion that we can do it. Some question about it.
- Burgess: We decided that that close association would not be illegal.
- H.M.Jr: Or contaminating!
- Burgess: No.
- Eccles: So we won't have to sell any more.
- H.M.Jr: All right with me.
- Bell: Are we supposed to know about that?
- Eccles: You can forget it if you want to.
- H.M.Jr: Have you got a legal opinion from John W. Davis on that?
- Eccles: Well, somebody better than Davis. Well, we got it from Logan in New York and also Wyatt and Dreibelbis. We got the opinion of the Counsel of the Board and the opinion of the Counsel of the New York Federal Reserve Bank, so
- Szymozak: That makes it good.
- Burgess: Otherwise George Harrison will go to jail.
- H.M.Jr: Well, it really doesn't concern us, does it?
- Harrison: It might interest you.
- H.M.Jr: Well, its a purely academic matter.
- Eccles: Wouldn't it be a good thing, at whatever price these are offered, that the holders of these notes wouldn't necessarily get any speculative profit as a result of it? If you want to discount these rights a little in the future
- Burgess: They are going to make it just as close as we can get by with in order to make the rights a little less valuable.
- H.M.Jr: The conversion?

Burgess: Yes, I think you want it fairly close.

H.M.Jr: No, I don't; for once, I am just going to add about a quarter of a point to this one because, in this room, this may be one of their week-ends. So I may just make this a little extra sweet. I am very nervous about this week-end. That is very confidential. But it may be one of these week-ends and a quarter of a point - if you figure - somebody take a pencil - at five hundred million dollars for seventeen years how much is it? What is it, a quarter of a point?

Harris: One million, two hundred fifty thousand on five hundred million.

Bell: It is only for once; it isn't for seventeen years. Only be for one time.

H.M.Jr: Only for one year?

Burgess: Yes, it is only once, that's all.

H.M.Jr: That's right. It is only one year. Figure for one year. What would it be for one year?

Burgess: That's a million and a quarter dollars, that's all.

H.M.Jr: Well I may want to.

Burgess: You can gamble with that.

H.M.Jr. Well, insurance. I mean I'll know Saturday, I'll know more, but the way I feel right now I may just want to add a quarter of a point. What?

Burgess: That's all right. I don't know your situation.

H.M.Jr: Well, I don't want to talk about it but you will have to take my word for it. I mean I've got to play hunches around here, and I may be wrong, but if a five hundred million dollar conversion didn't go, then a million and a quarter would look terribly cheap.

Burgess: Of course this is very much easier than your usual operations because the holders of the notes have almost got to convert in order to realize any profit at all.

H.M.Jr: But I mean we've done this before. I mean this is - I think I did that once before. We sweetened it a little when I was nervous.

Burgess: We have done it usually.

H.M.Jr: What? We usually

Burgess: We usually

H.M.Jr: No.

Burgess: have made it pretty sweet.

H.M.Jr: But Marriner, I don't want to - it isn't worth the risk.

Eccles: If you are going out for new money I can't imagine much of a risk with the small amount, and it is only a conversion. The only thought I was thinking of was the speculation in these rights right along.

H.M.Jr: That is something else, isn't it?

Eccles: Except that the sweeter this is, the greater the speculation in the future. I mean they have in the past always been given pretty good premiums. It's been pretty sweet and it's made the rights on these notes pretty valuable. There's been a great deal of speculation in them. If they took a loss once on them or they didn't get any profit as a result of buying them, which they have been getting, a lot of them, why, they might discontinue the speculation. That's the only thought I had in mind.

H.M.Jr: I know, but we got a lot of satisfied customers, and the fact that they have made - the reason that they are satisfied is that they have pretty consistently made money. That's about the only way I know we can keep them satisfied, and I think that the thing somebody suggested a week ago, the possibility that we might announce in June that on conversion we'd only make 75% allotments or something like that - I'd rather do it that way than cut the thing off too close and take the risk. I mean based on last night's closing if we offered it at 101 and just cut off the 3% interest, there would be 8/32nds. If we added the quarter per cent for one month, 16/32nds, or half a point.

Eccles: If you offered them at 101 . .

H.M.Jr: At 101 and paid them double interest. It would be a half of a point profit.

Eccles: Well that wouldn't be much.

H.M.Jr: The way it looks today we better offer it at 100 $\frac{1}{2}$ or 101. Then we could always figure if we are a little nervous - if I am still a little nervous on Saturday, I mean

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- Haas: It's the other way around. You'd offer them at par eight if you wanted to sweeten.
- H.M.Jr: Yes, but I mean the way - last night we figured that if we commenced to offer this new bond at 101, it will be 16/32nds.
- Lochhead: But that is a quarter less than the market is expecting.
- Eccles: Yes, that's all right.
- Burgess: That's all right.
- Eccles: You mean 101 premium.
- Burgess: And then you'd give them in addition the 8/32nds interest.
- Eccles: Then you got about half a point profit.
- Lochhead: And they are expecting three-quarters.
- Eccles: Well, the rights are selling at more than that. They'd take a loss on their rights. That's all right.
- H.M.Jr: We are figuring on giving them 16/32nds profit, a half point.
- Eccles: That's all right. I think you got to give them that. What I was thinking was giving them a point profit - I mean usually they get a point profit.
- H.M.Jr: No, no, I am thinking in terms of half a point profit, then if I am still nervous on Saturday we will give them three-quarters.
- Eccles: Oh! well, that's all right. I agree with that.
- H.M.Jr: Then if I am nervous we give them an extra - we make it three-quarters.
- Eccles: Well, that's all right; we're both starting at the same place.
- Harrison: You will know though before you have to fix the price whether this is going to be one of those week-ends.
- H.M.Jr: Sure, we'll know, Burgess loves to call up about 12 o'clock Saturday.
- Burgess: I usually work 'til twelve on Saturday.

- H.M.Jr: As a matter of fact, you made me - you recommended that we cut off a year on the maturity at five minutes of twelve the last time. It was a 49-54 and you got nervous and made it 49-53.
- Burgess: Glad we did.
- Eccles: You take the bonds; it seems to me the long term bonds have held up unusually well when you consider it. Since we announced this increase in reserve requirements, they have been just about as steady as - much more than we had any reason to expect.
- Burgess: One thing I do want to call attention to. It is the same thing I called attention to last week, and that is that the spread between the Treasury's and the corporates shown on the second chart is nearly a quarter of a point larger than it was. That is, the corporates have been weak and the new issues have been weak. I just heard yesterday of a new issue that they had been talking about getting out at three and a quarter; they got to get it out at three and a half now. The new issue market has been weak; a lot of these issues that have come out have gone off two and three points and the market has been sloppy. And the indexes are off a point or two, indexes of corporate bonds. So that if you think of the relationship between Governments and the corporate market as one of the technical situations, the technical position of the Governments, it seems to me, with the corporate market - it seems to me is less favorable than it was two or three months ago.
- On the other hand, the technical situation as to the dealers in their market position is very good. The dealers are holding a very small amount of Governments.
- H.M.Jr: What had you been running through your mind on how we'd price this?
- Burgess: About the same as you.
- H.M.Jr: About the same?
- Burgess: Yes, if you do it flat without paying them any interest par and a half; it is worth just the same. It is worth half a point.
- H.M.Jr: I mean figuring it would be from half to three-quarters of a point profit. What?
- Burgess: That's all right.
- H.M.Jr: Yes.

- Burgess: That would give them 18/32nds on it today at par and a half without any interest.
- H.M.Jr: We thought we'd announce tomorrow at the regular press conference at 10:30 what the piece of paper was going to be, and that gives them a couple days to adjust themselves. Without pricing it; just say it is going to be the 49-53 at two and one-half.
- Burgess: Are you committed to that? I don't know that it is any mistake.
- H.M.Jr: I told them I'd let them know Thursday.
- Eccles: Well, what else would you
- H.M.Jr: I mean I'm not committed. Only I am committed to say - I told the boys I'd let them know Thursday.
- Burgess: I think they will assume that you will give it to them at par for par.
- Lochhead: If you told them you were going to give them a long term bond, would that cover it?
- H.M.Jr: How are they going to interpret it?
- Burgess: I am afraid that if you announce tomorrow that you are going to give them some more of 2 1/2's at 49-53 they will assume that you are going to offer par for par exchange and then the rights would go right up.
- Haas: You can say the price is still to be determined.
- Burgess: Then the rights would be worth a point, you see, that way. You see, you haven't offered an exchange with a premium on it for a number of years; I don't know as you ever did. Some of your predecessors did sometime ago and the market
- H.M.Jr: Well, I could just tell them I'm sorry, but I haven't been able to make up my mind.
- Szymczak: (Nods Yes)
- Eccles: Tell them you'll give them a long-term bond; you could
- Harrison: They would still have that same assumption though unless he indicated that the price was to be determined.
- Eccles: If you are going to say that then announce the issue but say the price is going to be determined which would prepare them for the premium. That may be well.

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- H.M.Jr: Well, if Burgess - I haven't made up my mind and I am not going to make up my mind until the market closes Saturday. The worst would happen -- that I was worried and the thing might go down a little bit.
- Burgess: I think in some ways that would be better. Then you still leave yourself free.
- Eccles: That is, not announce the issue?
- Burgess: Yes.
- Eccles: Would you say a long-term issue or say nothing about it?
- Burgess: I'd be inclined to say nothing.
- Harrison: You could say bonds.
- Eccles: That's what I meant. Give them a bond. Huh?
- Burgess: Be no great harm in that, I think. Give them a bond in replacement; just what bond, just what price, you haven't yet determined.
- Harrison: That would indicate less nervousness than if you announced the issue but said you hadn't yet determined the price. Just say, "I am going to give you a bond, but what bond, at what price, I am not sure of yet".
- Burgess: That will bring your note market back a little and I don't think it will hurt the bond market.
- H.M.Jr: All right Dan, what do you think?
- Bell: Well, if you say a bond I am just wondering what they'll be looking for in the way of a premium on that bond.
- Burgess: And they wouldn't assume it is the same bond necessarily.
- Bell: But they'll assume that at least a point premium will be on that bond if they go back to our previous experience. They might even assume that it would be 8-12/32nds above one point. In which case your rights would go up any way.
- Burgess: I think the market thinks two things Dan - I've been talking with a good many people the last two days. There are two guesses. They say they doubt if you will do notes because the note market has

been so weak. They don't think that would be wise. They are saying in bonds, not two but three possibilities. One is about a ten year two and a quarter. They don't think that is quite so good as a longer bond, because the intermediate market has been a little unsettled and that would be dropping your coupon. They say in a longer bond there are two possibilities. One is to put out some more of the 2 1/2's 49-53, and the other is to put out another 2 1/2 of a year longer maturity. And if you say you are going to put out a bond they will want to know which of the three it is so they are still a little on the fence, which is all right. I think more of them expect some more of the 49-53's than anything else because that seems a very logical thing to do, but there are a number that expect something different.

- Eccles: Let's see, rights are selling today at about what?
- Burgess: About 29/32nds. No, 101.
- Eccles: Does that take into account the interest?
- Burgess: The interest is 8/32nds off that so that is three-quarters of a point premium.
- Eccles: Yes, three-quarters of a point. Wait a minute, what is it now? 11/32nds; 10 or 11/32nds?
- Harris: Eleven.
- Burgess: Yes, that's 21/32nds premium.
- Eccles: Well, there would be no use in giving more than 21/32nds. I mean if you gave them three-quarters of a point you'd be giving them
- Harrison: You'd be giving them more
- Eccles: Yes, three-quarters; you'd really be giving them more than the rights are selling for today.
- Harrison: And he wouldn't do that unless he
- Bell: Not much more. About on the line.
- Eccles: And that would be a premium of about half a point wouldn't it?
- Burgess: Yes, making no allowance for interest; three-quarters if you allowed interest.
- H.M.Jr: Also, that keeps them from sharp-shooting at that 2 1/2.

Burgess: That's right.

H.M.Jr: What?

Burgess: That's just the point.

H.M.Jr: That keeps them from sharp-shooting at the 2½. They might just drive that 2½ down. Huh!

Eccles: Well, it gets you committed; which is -- nothing to be gained by it.

H.M.Jr: The 2½'s are up to 101-11. I think that that would be the best thing; simply say it is going to be a bond; which bond and what price hasn't been determined and won't be until the market closes. What's the matter with that?

Harrison: As long as you are committed to say something, I think that is the least harmful thing.

H.M.Jr: Then whatever level it would seek. But I am afraid the 2½'s - they'll just put their rifles on that.

Bell: Couldn't you say that all indications now point to a bond?

Haas: That looks as if you are worried a little more than you are.

H.M.Jr: Well, I mean to say that by noon Saturday we'll know - that is 5 o'clock in Europe - they're not going to do anything there.

Feeling all right? (To Goldenweiser)

Goldenweiser: Yes, thanks. I'm fine.

H.M.Jr: Well, has the Federal Reserve got any contribution or kick or suggestion?

Szymczak: No.

Sinclair: Not a thing more, Mr. Secretary.

H.M.Jr: Marriner.

Eccles: I've had my say.

H.M.Jr: Dr. Goldenweiser?

Goldenweiser: No, Sir, I haven't anything to say.

Davis: Nothing.

H.M.Jr: Anybody here?

Harrison: I have nothing more to add, Mr. Secretary.

H.M.Jr: Bell.

Bell: No, Sir.

H.M.Jr: George.

Haas: No.

H.M.Jr: Archie.

Lochhead: Nothing.

H.M.Jr: Harris.

Harris: Nothing.

H.M.Jr: Well, while we are together a minute, Marriner, do you want to say anything at all about the general price situation?

Eccles: Well, there is quite a bit to be said but I don't - do you want me to?

H.M.Jr: Well, I just - we are here and you fellows come down and I just wondered if there is anything that your people say or anything that you want to say. I mean I am getting used to these round tables since I've been up to Harvard.

Goldenweiser: That went pretty well, don't you think, Mr. Secretary?

H.M.Jr: I thought so.

Eccles: I was talking to Dr. Goldenweiser yesterday after I had lunch with you and he gave me something more specific than the general discussion. He said there was quite a crowd of Economists there, with Professors Rogers and Neeley, Crowders and Riefler, and that a lot of them shot some pretty pointed questions at you and you handled them very well, he said.

H.M.Jr: He missed the morning session.

Goldenweiser: Yes, but I heard an account of it.

H.M.Jr: It went pretty well. I know it was fun for me. The only thing we suffered from there was too many Professors. They didn't give the students a chance.

Golden-
weiser:

Especially one particular one did too much talking in there.

H.M.Jr:

No I mean is there anything that you want to say now, anything you think we ought to

Eccles:

Well, I think the thing that we have got - at least it concerns me - we haven't had a chance to discuss it over in the Board because most of them - half of our members have been away. And, of course, this matter of increasing reserve requirements and other action - we have just got through with it, but the situation at the present time with reference to these rapid increases in prices that we are getting, which I term a price inflation as distinguished from a monetary inflation - I mean it is an increase in prices not caused primarily as a result of a monetary situation but due to an unusual demand for certain raw materials and a shortage in productive capacity unable to meet the extreme demand, either due to lack of factory capacity or a lack of supply of skilled labor.

Now I have in mind three or four things. There is steel, the most outstanding; copper; lumber. All of those three items have been withdrawn from the market as to quoting future prices. They will take no orders for future deliveries. They are operating to capacity. We hear of steel at 85%. Well it really - 85% is 100%. The 15% that isn't included is a lot of old capacity that just isn't ready and couldn't be operated anyway.

I was telling the Secretary yesterday that I was up to the Homestead Mill a couple of weeks ago and spent half a day with the United States Steel people going all through that mill, and they were operating twenty-four hours a day, and they said that the whole steel industry was operating on that basis. Now they had some capacity there that hadn't operated for twenty or thirty years; that was one of the old Carnegie Mills that was built in 1883.

Now you take in the lumber situation, and it is - we have practically a capacity operation, and they have withdrawn from the market. Prices advanced \$2.00 a thousand here just two weeks ago.

And I was talking to Mr. Hunt, the head of the Aluminum Company. He says that they are operating twenty-four hours a day, to absolute capacity, at the present time.

Now that situation is due to forward buying, anticipation of strikes, buying in anticipation of further rises. The very fact that they have withdrawn prices only stimulates greater demand. It is going to throw our whole economy out of balance if it continues.

Agriculture - you will find that their farm implements are getting increasingly expensive, that their materials that they have to buy for their buildings and their fencing, and steel and lumber products, copper products, etc., are rapidly increasing.

It will, of course, tend to cause a further acute shortage of housing or a building - construction of housing at prices that are altogether too costly. We've got a shortage of skilled help in the building trades in a great many parts of this country.

Now that type of an inflation cannot or should not be controlled by restricting credit, as long as you have got a lot of unemployed people. To restrict credit, in time, of course, would break these prices, because it would reduce the demand to a point where the existing capacity could take care of the demand. It seems to me the way to stop a price inflation such as is developing now, of course, is to increase production and thus absorb idle men. Now, you can't increase production rapidly when it is a question of requiring an addition to plant facilities. Where it is a question of shortage of skilled labor, you can either work more than forty hours a week those that you have, certainly not reduce skilled labor from forty-eight to forty-four, or forty-four to forty, and thus reduce the shortage of skilled help until you can meet the situation by training the unskilled help and the semi-skilled help.

It seems to me that the most effective way to do this would be possibly to drop the tariff on certain items. Lumber has a \$3.00 tariff; Canadian lumber can come in. Copper has a 4-cent tax. I don't know just what the tariff is on steel; but it would be an excellent time to - maybe we could get some of that Chilean copper; I don't know whether they've got a surplus or whether the European demand for war purposes is such that we couldn't divert any this way. I don't know enough about this situation, but anyway, if it were possible to take some foreign goods and tend to hold down these prices at this time, giving them dollar exchange to buy some of our cotton or to apply against their debts, instead of foreign capital coming in here, we'd be far better off and help balance our situation.

- Haas: Of course, the lead on most of these prices was abroad rather than here - copper, tin, lead, all those things. In other words, you've got the market higher over there than over here.
- Eccles: I knew that was true of copper.
- Sinclair: That would saturate our demand over here, wouldn't it?
- Eccles: Well, you could - the threat of reduced tariff on this would, I am pretty sure, help the lumber situation.
- H.M.Jr: Copper situation - it is a world cartel which they've got pretty well controlled. It is, I think, a situation peculiar to itself. I know a little bit about it.
- Burgess: But you are more apt to get full production if you reduce your tariff on copper so they can send it in.
- Eccles: I am not so sure on copper that they are anxious to hold these prices. It seems to me what a lot of these fellows are saying - "Well, we operated for years here, took a loss" - and they are trying to make it fast. Well, of course, in the effort to do that they are going to expand the steel productive facilities, they will build new lumber mills, open new copper mines. In fact, Phelps-Dodge now are working on one in Arizona. I talked to Lucas last week, who is the President of Phelps-Dodge, and they are opening one down in Arizona at the present time.
- H.M.Jr: Reopening or a new one?
- Eccles: Opening a new one, developing a new one. You develop our facilities for production to meet what would be a normal requirement, plus an effort to make up a huge backlog because of a depression condition, and then after a period of time you have made up this backlog, you have got caught up on the thing, and you have productive facilities all out of relationship to what the current requirement is, and, of course, your slump is accentuated then.
- Goldenweiser: Particularly undesirable to develop a capacity to meet armament demands.
- Eccles: Yes. Well it's, I think, a pretty serious situation and it's a type of inflation that we can't control by a restrictive credit policy.
- Haas: You can accentuate it, particularly in the construction field.

Eccles: Yes.

H.M.Jr: Well, I just wanted to hear.
Well now you're going back tonight, are you, Burgess?

Burgess: Going this afternoon. At your disposal.

H.M.Jr: George, where are you going to be this week-end?

Harrison: Anywhere you say.

H.M.Jr: Anywhere near a telephone?

Harrison: Oh! yes, I expect to be in New York.

H.M.Jr: Oh! you will be?

Harrison: Yes, unless you want me here.

H.M.Jr: No, no, I just wanted to know if you were going back to South Carolina.

Harrison: No - unfortunately.

H.M.Jr: Having got the biggest turkey

Harrison: yes, there are none left.

H.M.Jr: Well, all right. I have nothing else, have you?

Harrison: I think what the Chairman says cannot be over-emphasized because if we hope to attack the remaining unemployment problem, our best field is in the building field and the price rises that are going on now are going to hit the building industry harder than anything else. If there is some way by which we can keep the prices of those raw materials that go into building down, why, of course, it is to the benefit of our whole general economy right now. Tariff would be one way, I think; might not be wholly effective in every line, but it would be effective in some lines.

Eccles: It is important too that wages and hours - these industries at the present time don't hesitate to increase wages because they increase prices twice as much as they increase wages, and they use the wage increase as an excuse for a far greater price increase.

Harrison: There is no doubt though, Mr. Chairman, that some of the demand for raw materials is due to building

up of inventories, anticipating higher prices either through strikes or increased wages.

Eccles: That's right.

Harrison: Those two things and

Eccles: And reduced hours.

Harrison: and reduced hours. Now I've been talking to some of the banks in New York and I find that a large part of the increase in their so-called commercial loans are to finance the building up of inventories, frankly. Now while we couldn't attack it by any general program of credit policy, it may well be that in some fields we could discourage bankers from financing the building up of inventories. You couldn't do it uniformly and it would be unfair to certain banks to get them to cooperate by not advancing funds to build up inventories, when other banks would be glad to take on the business.

Eccles: I think the thing that would possibly be the most effective - I think worth considering - is that the Board may make a statement in its Bulletin with reference to this whole situation: a public understanding of the problem with reference to this price inflation and the question of the effect of reducing hours in skilled fields, and adding to the further increasing prices, the question of speculative buying to accumulate inventories; and something critical should be said about these business concerns which withdraw from the market - now that is just another way of getting prices up farther; the very fact that they withdraw prices, you see.

Burgess: It's pretty hard to get around it though, because a business concern that is building an inventory now is probably pretty smart. They are going to make money out of it. We would, if we were doing it, probably.

Davis: I don't think that a general sermon along that line would be convincing or have any good effect.

Haas: When you take the textile industry; it is already well filled up, as best I can analyze it.

H.M.Jr: Well, thanks, gentlemen for coming.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 3, 1937

to Secretary Morgenthau
 FROM M. A. Harris

The 3% Treasury notes due 4/15/37 were quoted at the close last night 101 bid, 101 2/32 asked. This is a premium of about 21/32nds in excess of a zero yield to maturity.

3% TN 4/15/37 IN EXCHANGE FOR 2 1/2% 1949/53 AT A PRICE

Current Bid Price of 3 1/2% 1949/53	Offered Price in exchange for 3% TN 4/15/37	Price Difference	Value of one month interest on 3% TN 4/15/37	Price difference plus one month's interest
101 8/32	100 24/32	16/32	8/32	24/32
101 8/32	101	8/32	8/32	16/32

OTHER POSSIBILITIES

<u>Suggested Coupon</u>	<u>Maturity</u>	<u>Estimated Market Basis</u>	<u>Probable Premium</u>
1-1/2% (5-yr. Note)	3/15/42	1.38	18/32nds
2-1/2% (13-yr. Bond)	3/15/50	2.41	1 point
2-1/2% (14-yr. Bond)	3/15/51	2.44	23/32nds

Note: Since the meeting last Wednesday, the government security market has drifted lower each day except on last Thursday when the announcement as to the March 15th financing resulted in higher prices. Last night's (Tuesday) closing bid prices as compared to closing bid prices a week ago showed losses of 2 to 8/32nds for Treasury bonds, 2 and 3/32nds for short notes and 4 to 9/32nds for long notes.

March 3, 1937

12 noon

Dr. Feis
Mr. Haas
Mr. Lochhead

HM, Jr.: I got what the President calls one of his brainstormers. Yesterday afternoon we got a message from Chamberlain, photostat copy of which I sent to Mr. Hull, in which he says that the French cannot last more than this week. Chamberlain does not know any more than I do. He says a week and Cochran says two weeks. Knowing how those things hang on, let's say that they last until the end of March.

I hate to sit here and not do anything. If you have not read Luger in the New York Times today, do so. The fact remains that if the French should collapse, it certainly is going to bring things to a head in Europe. I am very, very pessimistic.

I have been wracking my brain as to what we can do.

I think that we can greatly strengthen the Tripartite Agreement if we invited Russia to join us. They are the second biggest producer of gold and they have a great deal of gold. Russia has everything to gain and nothing to lose. Complete collapse of France means that they might expect an attack on either their eastern or western front.

Feis: The situation is as acute in Germany as it is France from an economic point of view. Because of their powers of control it cannot have the same consequences.

HM, Jr.: It is like a fight between two drunken men -- which one will die of exhaustion first. I am just passing this on to you to think about. It really has not crystallized itself in my mind as yet.

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Feis: Chamberlain put down at the end of the message to you, which you received yesterday, that this situation requires internal action by France. I do not think bringing Russia into this would help the internal situation of France. I think that they would have to again devalue the franc. That gives them enough money to meet their bills because that is the problem. Then if they could create a situation from which they can borrow from their own people and use that borrowing to lay a more permanent foundation, they can without too fundamental a change create a situation where they can borrow from their own people. They might have to bring about a change in the Bank of France and also in the Cabinet. I hope that all of that can be achieved without political disorder in France; that Blum would be able to work it out. Perhaps somewhere along the line the British and American Governments could help.

HM, Jr: Puleston told me, about a month ago, and that is where I got the idea, that when you stop to consider, Russia and we have the same common enemies.

I just want to give this to you as a thought. Russia has a great deal of gold. They have a great deal of platinum.

Feis: From purely a financial standpoint, I think instead of doing the job, it might make the French situation worse.

HM, Jr: I have not talked to the President about this. It has not even crystallized in my mind. I want you all to think about it. I do not know whether this thing is any good, but I am just looking for an idea.

Feis: There may be an opportunity for the President to say something dealing with the political aspects -- for the President to say something that would help Blum.

HM, Jr: I cannot see what the President can say to help France.

Feis: The crisis Democratic Governments have to go through -- how much social improvement and reform can be brought.

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HM, Jr: I was thinking this afternoon, all I can say in this room, leaving out the monetary thing, the thing that is hurting France is the political thing. They know where Roosevelt stands. But if Russia comes along and says, 'We are going to join this thing because we are not going to let anybody wipe France off the map. We have a lot of business relations with France and we have a great deal of gold.' -- the very thing you wanted Roosevelt to say -- I think the Russians should say.

Feis: There are two possible ways that France, over a period of time, can become master of its circumstances:

1. Decided move toward State control.
2. A very limited move toward reassuring private capital.

Whoever is in power in France is going to have to make that choice. I would say that to make your one move now -- the association of Russia -- would not help the situation in France.

HM, Jr: Before the Russians could come into the Tripartite Agreement she would have to subscribe to our methods of dealing.

Feis: It would almost force Blum to take the opposite route. The opportunity of building both the unity and the confidence which may enable Blum to carry through can be much helped by the President and Chamberlain.

HM, Jr: The President will get that the minute Bullitt arrives. That is the only appeal that Bullitt has.

Feis: I think this steel settlement is going to boost the President's position throughout the world.

At this point, Dr. Feis left and Magill came in to discuss some matters with HM, Jr. About ten minutes later Feis returned and said, "What about Japan? Could she not serve in place of the country you talked about at the meeting?" HM, Jr. then replied, "Why not Italy?" It was agreed that further thought would be given the various suggestions.

MESSAGE FROM THE CHANCELLOR OF THE EXCHEQUER
TO THE SECRETARY OF THE UNITED STATES TREASURY.

Please thank Mr. Morgenthau for his message and assure him that I fully share his desire that we should continue to keep in closest touch about the French situation.

As stated in Chancellor of the Exchequer's message to Mr. Morgenthau February 10th His Majesty's Government urged the French Government to take speedily most vigorous action to restore confidence. French Ministers in their reply stated that the French Government were firmly refusing to impose exchange control and that measures which they had under consideration included free movement of gold, a pause in increase of expenditure, use of a more elastic technique by French equalisation fund to defeat speculation, limitation of rise in prices and reduction of customs tariffs and abolition or limitation of quota restrictions.

His Majesty's Government regard (1) a free gold market combined with (2) a more elastic technique in employment of French equalisation fund as of special importance. As regards (1) foreign exchange should be in our view treated on the same footing as gold, and capital should be free to return to France without penalty or hindrance. As regards (2) it was explained that our experience suggests that so long

as rate of franc is rigidly pegged speculators for a fall can operate at small expense in hope of making a profit without incurring a loss. His Majesty's Government stated that they would be quite willing for their part if it were desired by French Government and should United States Government concur to state that it was with full concurrence of His Majesty's Government that French Government intended in present circumstances to make use of liberty given by existing French law to vary value of franc from time to time.

I had expected to receive a further communication from French Government at the beginning of last week and was waiting for this before sending a message to Mr. Morgenthau. But I now learn that French Government postponed any decision until after debate in chamber on Friday last and that I cannot expect any further communication for a day or two.

His Majesty's Government agree with the United States Government that a further depreciation of the franc by not more than eight per cent would in present circumstances not be open to objection but as explained above they consider that in order to restore confidence free movement of gold at its full value should be permitted and that the franc should then be allowed to vary within limits fixed by French monetary law. They would be very glad to learn if the United States Government agree in this view.

Generally speaking His Majesty's Government feel that situation depends on internal measures to be taken by the French Government who have already been informed/

informed that His Majesty's Government in the United Kingdom have no statutory power even if they were willing to take part in a modified pooling of stabilisation fund resources as seemed at one time to be suggested. But I would like Mr. Morgenthau to know that in my personal opinion there now remains little hope of avoiding a breakdown of monetary agreement due to exhaustion, perhaps in the course of this week, of recent London credit. I agree with Mr. Morgenthau in thinking that there is nothing which the United States Government and His Majesty's Government can do to help the situation though of course I should be glad to consider any suggestion of action which might be taken in concert to prevent breakdown.

GROUP MEETING

March 4, 1937
9:30 A.M.

Present: Mr. Magill
Mr. Gaston
Mr. Taylor
Miss Roche
Mr. Lochhead
Miss Chauncey
Mr. Oliphant

Gaston: I have a telegram from Cy Upham yesterday saying his mother was to be operated on today.

H.M.Jr: Where's Herman Oliphant?

(Oliphant comes in)

Mr. Sabath sends a letter which arrived here at 4:30 and he wants an answer by eleven (hands letter to Oliphant). I'd like for him to jump in the Potomac.

Magill: Also at 4:30 yesterday afternoon, we received this material from Mr. Latimer. I gave one copy to Mr. Bell for study in his office. We have two. I presume the other one had better go to Mr. Haas and Mr. Reagh. Most of the stuff is a - well, we could call it either background or apology, I should say - ten pages history and ten more pages of figures.

H.M.Jr: Well, did the telegram every go?

Magill: He was to call me back. He didn't call me the day before yesterday, so I called him up yesterday and asked him about it. He said he'd call me back. Never has called me back.

Gaston: McIntyre said over the telephone that he thought they might handle it by telephone - that the White House might handle it by telephone to the railroad people.

Magill: Latimer said that he knew that Mr. McIntyre had called Mr. Pelley and Mr. Harrison, but he didn't know what he had said to them or anything about it.

H.M.Jr: (On phone) Get Mr. Latimer, Railroad Retirement Board, please.

Yesterday afternoon I happened to hear Steve Early

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say he'd played golf with Mr. Pelley. Maybe it was all settled.

Taylor: He does practically every afternoon.

H.M.Jr: Does he? Well, it's pretty important as far as the Treasury is concerned - 140 million dollars.

Magill: The other thing that I have in mind is a long distance business. Who could we get that could make a study of the various forms which are used in Internal Revenue, particularly these income tax forms, who would have some ideas?

H.M.Jr: Now wait a minute, along what line? How to pay or not to pay income tax?

Magill: Neither one.

H.M.Jr: They give you a book up in New York, published by Simon & Schuster, on that.

Magill: Don't buy it. It won't do you any good.

No, to get that material organized in some sort of form so that the man making out the return can understand what he is doing, and then also that the instructions be put in some sort of form that they can be understood. That form...

H.M.Jr: I'm a little low, Roswell, this morning; I mean don't expect any... What would you suggest?

Magill: Well, it looks to me like one of those things could be passed to George Haas, but...

H.M.Jr: Well, why George?

Haas: Thanks.

Oliphant: I'd like to make a suggestion.

Magill: Well, it's partly - the reason, if I may answer - the reason to pass it to George is that a lot of the complexity of that return is chargeable to his predecessor; I don't think it's chargeable to him. But every time somebody on that staff had a bright idea, twelve new questions went on the income tax return.

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- H.M.Jr: Well, if it's partly legal and partly statistical, I would suggest that we have a committee and that they be detached to work on that exclusively, if it is that important; and I would say that Mr. Oliphant put a man on it, Mr. Haas put a man on it, that you (Magill) get somebody, hire somebody if necessary, especially, and ask Mr. Helvering to put a representative on it.
- Magill: I would like to see somebody on it - just as a chance shot - the kind of person who would work for the International Business Machines Company, somebody who knows about forms as forms.
- H.M.Jr: (On phone) Hello, how are you? (To Mr. Latimer; record of conversation follows:)

March 4, 1937.
9:37 a.m.

H.M.Jr: How are you?

Latimer: All right, thank you.

H.M.Jr: Mr. Latimer, what, if anything, has been done about letting your railroad people and the railroad unions know about the government's position in regard to this Social Security tax?

L: Well I - night before last, after I left you, I carried over to Mr. McIntyre a draft of a telegram which had been agreed upon and he said he would handle it and I better - I tried all day yesterday to find out precisely what he did and just five minutes ago I tried to get him this morning to find out and I'm not (coughs) - haven't been able to find out yet whether he did anything or not.

H.M.Jr: Well, I think it's terribly important.

L: I had - I understood that Mr. Gaston had called over there but hadn't found out very much. Mr. - I talked to Magill. He was under the impression that some telegrams were going out but I still haven't been able to find out whether they actually went out or not.

H.M.Jr: Well I mean why should they go from the White House?

L: Well, it was decided that the - Mr. Gaston said that they should have White House clearance and we should take what they wanted to do. Mr. McIntyre thought they shouldn't go from anywhere else so I left it in his hands.

H.M.Jr: Well.

L: Now if that should be reconsidered why....

H.M.Jr: No I think they should go. I - I - I think it leaves us in a very embarrassing position.

L: Well they may have gone but I haven't been able to find out yet....

H.M.Jr: Ah-ha.

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L:as to whether they are. As I say, I'm supposed to get hold of Mr. McIntyre in 15 minutes. That's the last word that I had.

H.M.Jr: Thank you.

L: And I was going to call back immediately I found out.

H.M.Jr: Thank you.

L: All right, sir.

H.M.Jr: Goodbye.

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H.M.Jr: (To Operator) Will you tell McIntyre's office that I'd like to talk to him before he sees the President. I consider it very important. And I'll take it on this wire.

Operator: All right.

Gaston: Did he say it was left in my hands?

Oliphant: No, he said over at the White House.

Gaston: Yes.

H.M.Jr: Let me just read you two things. United Press: "In Paris government bonds opened two points higher today on the basis of stock market reports that Secretary of Treasury Henry Morgenthau, Junior, had assured Georges Bonnet, new French ambassador to Washington, that the United States was willing to help France out of its present financial difficulties. Other issues followed the bonds upward. The Washington correspondent of the Petit Parisien cabled that Morgenthau gave Bonnet unequivocal assurance of support."

Luckily, I had Mrs. Klotz here and Dr. Livesey, and we wrote up the minutes of what happened, of what I said to Bonnet. Then Livesey came back yesterday morning and he and Mrs. Klotz wrote up together the minutes. I mean I wanted to make absolutely sure - I mean because his French was - his English was so broken that anything that he didn't get - Livesey, who speaks French, could supplement what they might or might not have said. So I've got a written document.

Oliphant: What did the other one say?

H.M.Jr: Well, of course, what I said was just about as different as that the moon is shining now.

The other one said: "There were rumors of impending action to permit the franc to slip to the minimum rate under the tri-power accord, 43 milligrams of gold, compared with the present 47 milligrams. This would put the dollar above 23 francs. The Cabinet is scheduled to meet at 10 A.M. tomorrow, two hours

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before the opening of the Bourse. Financial Minister Vincent Auriol, who was ill and unable to attend the last meeting, will be present. Many observers felt that important financial decisions will be made at tomorrow's meeting."

They are getting the German habit of doing week-ends, aren't they?

Incidentally, stick this in your vest pocket (to Taylor) - nobody see it. And our friend is coming back at 4:30 tonight. You'll understand after you've read it. But don't leave it out of your own pocket, will you please?

I've read this - had it dictated over the phone to Cordell and when he gets down to his office I'm just going to throw - I'm going to throw Mr. Bonnet down just about as hot as I can. But I would suggest, Herbert, that you may go out and suggest that the correspondent of the Petit Parisien be here at 10:30.

Gaston: Uh-huh.

H.M.Jr: Why don't you just do that now, will you? That he be here at 10:30. See?

Gaston: Yes.

H.M.Jr: Also Havas. I mean I can't - I even thought I might have Bonnet here.

Taylor: May be a better correspondent than that of the Petit Parisien.

H.M.Jr: What would you think of having Bonnet here?

Taylor: No, you can't.

H.M.Jr: Well, I'm just going to say that the Petit Parisien - I'm going to say the correspondent of the Petit Parisien is nuts.

Oliphant: That's good French.

H.M.Jr: What?

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Oliphant: That's good French.

H.M.Jr: I guess the French of nuts would be "noits" - give it the French pronunciation. I can bite nails or Bonnet this morning - either one.

Roswell?

Magill: That's all.

H.M.Jr: Well, I'm trying to get this fellow.

Haas: There is a committee in the American Economic Association - joint committee of the American Economic Association and the American Statistical Association, on these forms that Ros is talking about.

H.M.Jr: What I'm getting at is that I suggest a committee - you (Magill) want International Business Machines; hire somebody particularly for this and form a committee, have somebody from Oliphant, somebody from your place, and somebody from Haas' office. Detach them; I consider it that important; and we'll let them work on that exclusively. How's that?

Magill: Good.

H.M.Jr: You hire anybody that you want. How's that?

Oliphant: I'd like to suggest that income tax forms suffer from an excess of lawyers, an excess of economists, an excess of statisticians. What it needs is somebody who can write English, and I would suggest Gaston on that committee.

H.M.Jr: I thought you were going to say Dorothy Thompson.

Oliphant: No.

Haas: He means Oliver Wendell Holmes.

H.M.Jr: I'll make you a good suggestion. Just put your hands on Georgie's shoulders. I suggest George O'May on that committee, and I'm serious.

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- Oliphant: Well, he's an accountant, but it suffers from too many accountants and technicians.
- Lochhead: That economist Pegler who's been writing income tax...
- H.M.Jr: And I refer you to Pegler's column this morning.
- Magill: Yes, that's a nice column this morning.
- H.M.Jr: Just read it. Seymour Weiss went out fishing with Jim Farley, and Mr. Pegler just devotes his column to it.
- Taylor: I think he ends on a splendid note, too.
- H.M.Jr: What was that? I forget.
- Taylor: He says the atmosphere has changed; they don't say which way, but your nose knows.
- H.M.Jr: Well, does that take care of you (Magill)?
- Magill: That clears me.
- H.M.Jr: I say you can hire some fellow, whether it's Dorothy Thompson or - what's-his-name, that Professor up at English....
- Magill: Mark Sullivan?
- H.M.Jr:up at Yale.
- Gaston: William Lyons Phelps.
- Magill: Gene Tunney I think you're thinking of. He's a Professor at Yale.
- H.M.Jr: William Lyons Phelps.
- Gaston: I can tell you - Franklin P. Adams is the best man I know. He's out of a job now.
- H.M.Jr: Gaston hasn't got anybody unless he hires someone. I want somebody hired on this to work on this exclusively.

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- Oliphant: Well, I'm dead serious that the most important thing about it is to get somebody to explain it in English.
- H.M.Jr: Well, the committee is now composed of a representative from Mr. Magill's office, a representative of Mr. Oliphant's office, a representative of Mr. Gaston's office, and a representative of Mr. Haas' office.
- Do you (Lochhead) happen to know what the cross rate is?
- Lochhead: I think we better keep the cross rate out of this.
- H.M.Jr: Hello (On phone - Has conversation with the President, transcribed separately)
- Oliphant: My turn.
- H.M.Jr: Just one second. Now, are you (Magill) satisfied?
- Magill: (Nods yes)
- H.M.Jr: On this committee - see, I want a report of progress from this committee twice a week, Wednesdays and Saturdays. I'd like a report every Wednesday and Saturday. I consider it of greatest importance and I want them completely detached and to devote their time exclusively to that.
- And tell Mr. McReynolds particularly about this thing, so that he watches this thing and puts a finger in.
- Now, you've started something and we'll go through with it. All right?
- Oliphant: Well, the taxpayers will rise up and call you blessed.
- Magill: What you need now is somebody to work for the committee.
- H.M.Jr: And afterwards - I don't want to do it until after the 15th of March, but right after the 15th of March we'll announce that such a committee has been formed and they are devoting themselves exclusively to that. But don't do it until after the 15th of March.

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- Haas: There is an existing committee, but inactive, over in the Bureau.
- H.M.Jr: But by god this is going to be active, and I want a report twice a week.
- Magill: I know there was a committee of this kind in 1933 when I came down here. There's always been a committee. And that was the year they made the return worse.
- H.M.Jr: Are you going to get somebody to put on it?
- Magill: I'm certainly going to try?
- H.M.Jr: Going to?
- Magill: Yes, I will.
- H.M.Jr: It's your committee now.
- Magill: I see that.
- H.M.Jr: This is what I said to the Ambassador. It's interesting to read what you said again. (Reporter instructed not to take reading of conference with Bonnet) - - - That's the whole thing. Isn't that interesting? What? It's important to have it, isn't it?
- Oliphant: (Nods yes)
- H.M.Jr: Now, that's that, and we have really done something this morning. It is a historic occasion.
- All right.
- Oliphant: What we had on the matter that Manning was working on - we wanted to get certain material from the Federal Trade Commission. We made an informal approach. The General Counsel asked for a formal request. I suggest that whenever you happen to be talking to the President you might mention an oral word from him would be - whenever it is convenient. I don't think you want to sign it.
- H.M.Jr: Monday at lunch with the President (to Miss Chauncey).

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Magill: By the way, did you notice the Federal Trade Commission's suggestion that the tobacco taxes be revised?

H.M.Jr: What kind of taxes?

Magill: Tobacco taxes. Everybody wants to play in our back yard.

H.M.Jr: (On phone) Hello? (To Cordell Hull) Did you read that little memo I dictated?

Hull: Yes.

H.M.Jr: About their saying that my conversation with Bonnet - that I said I'd give them unequivocal assurance. Now, I've got a press conference at 10:30 and what I was thinking of doing, if you approved, was simply to say that the French newspaper, see, Petit Parisien, was completely misinformed - that I made no such statement or any statement approaching such nature. See? But if you don't think - I mean I....
- - Please. - - No, I'm afraid it wouldn't. After all, this is a trick, you see, and they're trying to bolster their thing up, and then if this thing smashes Saturday or Sunday they're going to blame me; they're going to say, well, I should have denied this thing, and the stocks went up and people lost. - - Oh, I'm not... - - Pardon me? - - I think that's a very good suggestion. - - I think that's a very good suggestion. Thank you.

- -

He says to call Bonnet. (To Operator) Get Mr. Henry, the Counsel of the French Embassy, please.

He said to call - suggested I call Bonnet. At first he thought that I should simply say there was nothing new - that nothing new has developed the last couple days. But I can't see that.

Yes, Dr. Oliphant.

Oliphant: Otherwise I have nothing on my mind.

H.M.Jr: If you will stay a minute afterward, I want to see you, Herbert. You're expecting two gentlemen to

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lunch today?

Gaston: Yes, sir.

H.M.Jr: Right.

Haas: I have nothing.

H.M.Jr: When are you going to have that thing ready?

Haas: This morning. I'll give it to Herbert this morning.

H.M.Jr: All right. I'd like Mr. Oliphant to see that all the statements in it are - I mean as to laws and all that - are correct.

Oliphant: The Harvard thing?

H.M.Jr: Yes.

Oliphant: I've done that.

H.M.Jr: And I'd like for Mr. Taylor to read it before it goes out this morning, and also Mr. Lochhead.

Gaston: You want to see it....

H.M.Jr: And I'll see it this afternoon. But I'd like Mr. Taylor and Mr. Lochhead to see it.

Oliphant: I haven't seen it typed. I merely worked on that whole document.

Haas: Yes. Well, I'll give it to - I can give it to Herbert and he can clear it all around - I mean the final.

H.M.Jr: Would you? See that it gets around this morning. Why don't you give it to Gaston? It's up to him to see that these various people get it.

Did you (Gaston) talk to Yale and Princeton?

Gaston: Yes.

H.M.Jr: Did the boys like it?

Gaston: Yes, they're delighted to get it.

- Haas: And, as I take it, you want a minimum amount of change.
- H.M.Jr: Any changes I want underlined. I mean the thing clicked. It's like all of these things - I mean the thing clicked up there. It was subjected to the acid test and went over all right - and some pretty bright people present. Now, any changes - I'd like them underlined. But the point is it is supposed to be the paper which I read up there, so I'd like a minimum of changes.
- Haas: O.K., we'll have one clean copy and one with the changes marked.
- H.M.Jr: Anything else, Herbert? George?
- Haas: I have nothing else.
- H.M.Jr: Wayne?
- Taylor: Cuba didn't come in.
- H.M.Jr: Listen, I wanted to ask your advice. In yesterday's Times there was a story - you look it up - in which the President completely threw down Henry Wallace on the sugar business. And what I'd like to write is - I'd like to take the article and blue-pencil - just "Wrong" - run a great big long pencil mark. Then I'd like to say: "Dear Henry: When you enlighten the President, would you mind simultaneously enlightening me."
- Taylor: Oh, you shouldn't - trouble enough on that.
- H.M.Jr: You wouldn't?
- Taylor: No.
- Oliphant: That is, he didn't wait for our clearance, did he?
- H.M.Jr: Oh no. I want to tell - I don't want Miss Roche under the impression I had anything to do with it. They brought it up and the President turned and said that - in the first place, before Cabinet Wallace wanted me to believe that he had nothing to do with the fact that the thing was going to go

up, that it was entirely the President. And at Cabinet the President said, "Well, we've had a year to study this thing." "Well," I said, "I haven't had a year." "Well," he said, "it's going to go up now. If you want to do anything, you've got to think fast." I said, "All right, Mr. President, just count the Treasury out entirely. We're out of it, have nothing to do with it one way or the other."

Then Ickes spoke up. He said, "I've never seen it, and Puerto Rico is involved." The President said, "Oh, don't worry about Puerto Rico. It's all right."

I just want you to know. I don't want to sit in on any conference; I don't want anybody in the Treasury to sit in on any conference. I don't want anything to do with it; I don't want to have anything to do with it. The only thing - if you (Miss Chauncey) will tell Mr. Bell I would like a memorandum on it to show simply from the revenue basis how much the Treasury gains or loses, if the bill passes in its present form; that's all. But I don't want anything to do with it one way or the other.

But I can't understand. Now, you take for example that housing thing. Now, the President wants this housing thing and I had forty minutes - as tough a forty minutes alone with him as I have ever had, just on the straight financing. I want low cost housing, and I had forty minutes alone with him - very, very tough going. But at his press conference he doesn't throw me down; he simply says, "There's a dozen ways of financing it. Maybe this isn't the way. The Secretary of the Treasury is going to study this thing." Well, that's fair; I can't complain on that, can I, Herbert?

Gaston: No.

H.M.Jr: I mean as a matter of fact he's never thrown me down ever since I've been here; that's why I can't understand why he threw Wallace down.

Hello? (On phone. Conversation with Mr. Henry of French Embassy, record follows:)

March 4, 1937
10:08 a.m.

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H.M.Jr: I have my regular Press Conference at 10:30....
Jules
Henry: Yes.
H.M.Jr:and I have to say something about it.
H: Yes.
H.M.Jr: Now this is what I had in mind.
H: Yes.
H.M.Jr: That I would simply say that the Petit Parisien
must be wrong....
H: Yes.
H.M.Jr: ...because when Mr. Bonnet called on me - ah - no
question of support was raised by either him or me.
H: No.
H.M.Jr: Now do you think that's all right?
H: Yes, because what he said was that the United States
was waiting to answer France in the within
the legal limits of what you could do - so you said.
H.M.Jr: Yes.
H: But you did not. Excuse me, won't you -
H.M.Jr: Well, what's the ...
H: Will you mind repeating again what - exactly what the
Petit Parisien correspondent said.
H.M.Jr: Yes. This is the statement. It says, "Government
bonds ...
H: Yes, I understand the first part, it was simply the...
H.M.Jr: "Washington correspondent of the Petit Parisien cabled
that Morgenthau gave Bonnet unequivocal assurance of
support."

H: Un - ah - yes, unlimited assurance.

H.M.Jr: Unequivocal.

H: Unequivocal, yes. Oh yes, as to what they...

H.M.Jr: Simply what I intend - what I was proposing to say is...

H: Yes.

H.M.Jr: ... in twenty minutes was

H: Yes.

H.M.Jr:that the Petit Parisien must have - did misinform

H: Yes.

H.M.Jr:or drawn on his imagination

H: Yes.

H.M.Jr: ...because no such conversation ever took place between Mr. Bonnet and myself.

H: Yes.

H.M.Jr: See?

H: Yes.

H.M.Jr: And I said - I'm going to say I'm sure that if they will see Mr. Bonnet he will make the same statement.

H: Yes, all right, sir.

H.M.Jr: I mean I was going to blame - put the entire blame on the Petit Parisien.

H: Yes, well I will send your messenger as soon as he comes in, sir.

H.M.Jr: Now can you see any objection to that?

H: Well, we got wind of the conversation -

H.M.Jr: Yes.

H: - which was that, as I recall, you - I think that I recall that all you said - that you explained to the Ambassador that you had thought you might have to - the French situation - obviate a serious way. And M. Bonnet said that the situation was not so desperate and you pointed - and you thought then M. Bonnet said that he was willing to cooperate with you and you offered him that you were willing to cooperate within the limits of the tripartite agreement, so you said.

H.M.Jr: And within the laws of the United States.

H: Yes, within the laws of the United States, yes.

H.M.Jr: Well, I don't want to go into those details.

H: No, of course not - of course not. The Petit Parisien is much too strong.

H.M.Jr: It - is - pardon me?

H: I mean the correspondent of the Petit Parisien - I agree with you - had no business to wire such a thing at all.

H.M.Jr: Had no business.

H: What I mean - it seems to me, of course I don't know where he got that.

H.M.Jr: Well, I'm going to put it entirely on the Petit Parisien.

H: Yes. They asked me - as long as you are asking me - perhaps if you would put it a little more mildly. Perhaps, if you wish to -

H.M.Jr: A little more mildly?

H: Yes, perhaps.

H.M.Jr: Yes.

H: Because you see it is rather difficult for me. The Ambassador is not in now. He is making some official calls on -

H.M.Jr: I see.

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H: And he will not be in for half an hour or so.

H.M.Jr: Well...

H: But I will report to him and of course I am sure you are free to give any statement you want.

H.M.Jr: Well, I'll put it as mildly as I can and still...

H: And still make it clear, yes.

H.M.Jr: Yes, all right. And tell the Ambassador...

H: I will - I will - no doubt about it.

H.M.Jr: I'm sorry it happened, but I -

H: Why of course, so am I.

H.M.Jr: I just can't let it pass.

H: Yes. Thank you so much.

H.M.Jr: Goodbye.

- Gaston: Say something like this: that the correspondent of the Petit Parisien is under a complete misapprehension; he's apparently drawn some completely wrong inferences from the information given him. That is, if you were to say directly that he was misinformed, then somebody must have misinformed him.
- H.M.Jr: I got it: that the correspondent of the Petit Parisien must have drawn heavily on his imagination.
- Oliphant: Why not say just as Gaston says? Say he is under a complete misapprehension.
- H.M.Jr: Write it up in a - on a piece of paper.
- Taylor: That the conversation that the Ambassador had with you was along very general lines.
- H.M.Jr: Hello (On White House phone, to Mr. McIntyre). You know, when the President of the United States gets on and I expect McIntyre, it just takes my breath away. I had no - I called about ten minutes - I called about twenty minutes of ten and said, "Please tell Colonel McIntyre before he sees the President I'd like to talk to him."
- McIntyre: Oh, I see.
- H.M.Jr: And then, when the President of the United States got on, I had to think awful fast. Now, this fellow Latimer, since the night before last, is - I don't know whether he's stalling us or what, but I think the President - I think he put the President in a very embarrassing position, and I think that something should go out to the railroads so that they don't all stack up on us, see?
- McIntyre: I'll tell you what I did. I called George Harrison and I told him that ... (remainder undistinguishable)
- H.M.Jr: Yes, well did you do that?
- McIntyre: Yes, yes.
- H.M.Jr: Good, good. Did you tell that to Pelley too?

I think you better call Pelley.

McIntyre: Well, he - I don't think he has....

H.M.Jr: And some time I want to talk to you about Latimer. But would you mind calling Pelley yourself?

McIntyre: No, I'd be glad to.

H.M.Jr: I'll appreciate it. And would you call me back later and let me know?

McIntyre: Yes.

H.M.Jr: And later in the day if you don't call me, if you don't mind, I'll call you back. But I think it may put the President in a very difficult position. I'd feel much happier if you'd call Pelley.

McIntyre: I'll be glad to.

H.M.Jr: Thank you.

McIntyre: Right.

H.M.Jr: That is, I want to protect the President.

McIntyre: All right.

H.M.Jr: Thank you.

(Conversation finished)

H.M.Jr: Well now, I'm sorry, but we've got fairly important things this morning. Well now, this is all in the office. What McIntyre said - he's upset because he said he happened to have been handling this thing for the President and.... This is all deep stuff, White House stuff, but he says he's kind of sore that Pelley - Steve Early handled part of it with Pelley, and he says Steve didn't know anything about it.

Chauncey: Pardon me - Mr. Latimer.

H.M.Jr: So what I would do, Herbert - think about it.

Hello? (On phone to Latimer; record of conversation follows)

March 4, 1937
10:21 a.m.

- Datimer: Talked to George Harrison. He's expected to talk to Mr. Pelley and no wires have been sent out.
- H.M.Jr: An ha. Well, I got Mr. McIntyre myself and I also spoke to the President and it seems that Mr. McIntyre's been handling this for the President and he thought if they did it by word of mouth that they could protect the President's interest in that way....
- L: Yes.
- H.M.Jr:and Mr. McIntyre assured me he - he first thought that you'd talked to Mr. Pelley.
- L: No sir, I have not.
- H.M.Jr: Well he's going to talk to them. And I think if Mr. McIntyre talks both to Mr. Pelley and Mr. Harrison - why then I think the President's interest will be protected.
- L: You're - you're satisfied then all right.
- H.M.Jr: I'm satisfied.....
- L: Yes.
- H.M.Jr:because the only thing I want is the President's interests protected and I think they will be under these circumstances.
- L: Yes. I've - I've sent over a memorandum to Mr. Bell and to Mr. Magill on this whole situation.
- H.M.Jr: All right, thank you very much.
- L: Yes sir.
- H.M.Jr: Thank you.

- Oliphant: I'd like to say that the pressure will come from the rank and file of labor, and this news apparently will not come to them.
- H.M.Jr: Well, isn't Harrison representing labor?
- Magill: He's supposed to be, yes.
- H.M.Jr: Well, he's been already talked to.
- Oliphant: He has been?
- H.M.Jr: He doesn't play golf with...
- Oliphant: He'll make it public. He'll tell it to the rank and file.
- H.M.Jr: I don't know, but Mr. McIntyre has spoken to Mr. George Harrison, who represents the railway and labor unions, doesn't he?
- Roche: (Nods yes)
- H.M.Jr: And the point is that this thing - this thing is rather peculiar.
- Gaston: Uh-huh.
- H.M.Jr: And as I say - well, you people all know what I'm talking about; I don't have to elaborate.
- But the big thing this morning is Mr. Magill's committee on income tax forms, so that you could - that a person who has gone to high school can make out his own income tax.
- Magill: Even the eighth grade.
- H.M.Jr: All right.

March 4, 1937.
9:37 a.m.

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H.M.Jr: How are you?

Latimer: All right, thank you.

H.M.Jr: Mr. Latimer, what, if anything, has been done about letting your railroad people and the railroad unions know about the government's position in regard to this Social Security tax?

L: Well I - night before last, after I left you I carried over to Mr. McIntyre a draft of a telegram which had been agreed upon and he said he would handle it and I better - I tried all day yesterday to find out precisely what he did and just five minutes ago I tried to get him this morning to find out and I'm not (coughs) haven't been able to find out yet whether he did anything or not.

H.M.Jr: Well I think its terribly important.

L: I had - I understood that Mr. Gaston had called over there but hadn't found out very much. Mr. - I talked to Magill. He was under the impression that some telegrams were going out but I still haven't been able to find out whether they actually went out or not.

H.M.Jr: Well I mean why should they go from the White House?

L: Well it was decided that the - Mr. Gaston said that they should have White House clearance and we should take what they wanted to do. Mr. McIntyre thought they shouldn't go from anywhere else so I left it in his hands.

H.M.Jr: Well.

L: Now if that should be reconsidered why....

H.M.Jr: No I think they should go. I - I - I think it leaves us in a very embarrassing position.

L: Well they may have gone but I haven't been able to find out yet.....

H.M.Jr: Ah-ha.

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- L:as to whether they are. As I say I'm supposed to get hold of Mr. McIntyre in 15 minutes. That's the last word that I had.
- H.M.Jr: Thank you.
- L: And I was going to call back immediately I found out.
- H.M.Jr: Thank you.
- L: All right, sir.
- H.M.Jr: Goodbye.

March 4, 1937

The Secretary spoke to the President over the telephone this morning at about 9:40 and read him the following United Press ticker bulletin:

"Paris -- Government bonds (rentes) opened two points higher today on the basis of stock market reports that Secretary Morgenthau had assured Georges Bonnet, new French Ambassador to Washington, that the United States was willing to help France out of its present financial difficulties.

Other issues followed the bonds upward.

The Washington correspondent of the Petit Parisien cabled that Morgenthau gave Bonnet "unequivocal assurance" of support."

The Secretary then called Secretary Hull and told him that at his press conference at 10:30 he would have the representative of the Petit Parisien come in and say he had made no such statement or any statement even approaching the press reports. "After all," he said, "this is a trick, you see, and they are trying to bolster their thing up. Then if this thing smashes Sunday or Monday, they will blame me. They will say I should have denied this thing."

The Secretary said that Mr. Hull made the excellent suggestion that he, HM, Jr., call Bonnet and say that nothing new has developed in the last couple of days.

The Secretary then tried to reach Ambassador Bonnet, but he was not available. He spoke to Mr. Jules Henry, Counselor of the Embassy, and the following is a record of their conversation:

March 4, 1937
10:08 a.m.

H.M.Jr: I have my regular Press Conference at 10:30....
Jules
Henry: Yes.

H.M.Jr:and I have to say something about it.

H: Yes.

H.M.Jr: Now this is what I had in mind.

H: Yes.

H.M.Jr: That I would simply say that the Petit Parisien must be wrong....

H: Yes.

H.M.Jr: ...because when Mr. Bonnet called on me - ah - no question of support was raised by either him or me.

H: No.

H.M.Jr: Now do you think that's all right?

H: Yes because what he said was that the United States was waiting to answer France in the ^{within} the legal limits of what you could do - so you said.

H.M.Jr: Yes.

H: But you did not. Excuse me, won't you -

H.M.Jr: Well, what's the ...

H: Will you mind repeating again what - exactly what the Petit Parisienne correspondent said.

H.M.Jr: Yes. This is the statement. It says, 'Government bonds ...

H: Yes, I understand the first part, it was simply the

H.M.Jr: 'Washington correspondent of the Petit Parisienne cabled that Morgenthau gave Bonnet unequivocal assurance of support.'

H: Un - ah - yes unlimited assurance.

H.M.Jr: Unequivocal.

H: Unequivocal, yes. Oh, yes, as to what they

H.M.Jr: Simply what I intend - what I was proposing to say is

H: Yes.

H.M.Jr: ... in twenty minutes was

H: Yes.

H.M.Jr:that the Petit Parisiene must have - did misinform

H: Yes.

H.M.Jr:or drawn on his imagination

H: Yes.

H.M.Jr: ...because no such conversation ever took place between Mr. Bonnet and myself.

H: Yes.

H.M.Jr: See?

H: Yes.

H.M.Jr: And I said - I'm going to say I'm sure that if they will see Mr. Bonnet he will make the same statement.

H: Yes, all right, sir.

H.M.Jr: I mean I was going to blame - put the entire blame on the Petit Parisiene.

H: Yes, well I will send your messenger as soon as he comes in, sir.

H.M.Jr: Now can you see any objection to that?

- H: Well, we got wind of the conversation -
- H.M.Jr: Yes.
- H: - which was that, as I recall, you - I think that I recall that all you said - that you explained to the Ambassador that you had thought you might have to - the French situation - obviate a serious way. And M. Bonnet said that the situation was not so desperate and you pointed - and you thought then M. Bonnet said that he was willing to cooperate with you and you offered him that you were willing to cooperate within the limits of the tripartite agreement, so you said.
- H.M.Jr: And within the laws of the United States.
- H: Yes, within the laws of the United States, yes.
- H.M.Jr: Well, I don't want to go into those details.
- H: No, of course not - of course not. The Petit Parisienne is much too strong.
- H.M.Jr: It - is - pardon me?
- H: I mean the correspondent of the Petit Parisienne - I agree with you - had no business to wire such a thing at all.
- H.M.Jr: Had no business.
- H: What I mean - it seems to me, of course I don't know where he got that.
- H.M.Jr: Well, I'm going to put it entirely on the Petit Parisienne.
- H: Yes. They asked me - as long as you are asking me - perhaps if you would put it a little more mildly. Perhaps, if you wish to -
- H.M.Jr: A little more mildly?
- H: Yes, perhaps.
- H.M.Jr: Yes.
- H: Because you see it is rather difficult for me. The Ambassador is not in now. He is making some official calls on -
- H.M.Jr: I see.

H: And he will not be in for half an hour or so.

H.M.Jr: Well...

H: But I will report to him and of course I am sure you are free to give any statement you want.

H.M.Jr: Well, I'll put it as midly as I can and still

H: And still make it clear, yes.

H.M.Jr: Yes, all right. And tell the Ambassador

H: I will - I will - no doubt about it.

H.M.Jr: I'm sorry it happened, but I -

H: Why of course so am I.

H.M.Jr: I just can't let it pass.

H: Yes. Thank you so much.

H.M.Jr: Goodbye.

REPORT ON SECRETARY MORGENTHAU'S PRESS
CONFERENCE, MARCH 4, 1937:

- H.M.JR.: First as to our own business. Hello, Felix; haven't seen you in a long time -- sell you a little cotton?
(Felix Belair)
- Q. Got some?
- A. No. On Monday we'll offer the April holders of the note the right to exchange into a bond. Period.
Paragraph.
- Q. No maturity?
- A. You'll have to wait until about 12:30 Saturday to get the rest for Monday morning release. Now I'd like to do something a little bit different than I've done it before, and that is this: Both ticker services that we get here have carried a supposed interview emanating from the correspondent in Washington of the Petit Parisien -- I understand he's here. I asked him to be here and if he cared to, possibly he'd like to say what he did say in his dispatch and that would make it easier for me.
- MR. DENOYER: Here I am.
- MR. GASTON: That's Mr. Denoyer, Mr. Secretary.
- H.M.JR.: Would you like me to read what the United Press carried?

Newspapermen: Yes.

H. M. JR. : I'd like to make it as easy for you as I can, and at the same time make it as easy for the American press as possible and let them know what the facts are.

MR. DENOYER: Naturally.

H. M. JR. : This is what came from the United Press: "Paris -- Government bonds (rentes) opened two points higher today on the basis of stock market reports that Secretary Morgenthau had assured Georges Bonnet, new French ambassador to Washington, that the United States was willing to help France out of its present financial difficulties. Other issues followed the bonds upward. The Washington correspondent of the Petit Parisien cabled that Morgenthau gave Bonnet 'unequivocal assurance' of support." This is sort of unusual, but I want to be courteous and still it's very important, and I understand from what you said to Mr. Gaston that you didn't write any such thing.

MR. DENOYER: Not in this form.

H. M. JR. : So, if you don't mind, this is your press conference for the moment -- you can say anything you want to.

MR. DENOYER: May I say that it isn't for quotation but for background, because I don't have the experience that you have, Mr. Secretary.

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MR. LINZ: No, oh no.

Newspapermen
chorus: If you don't want to listen, you can leave. I guess if
the rest of us want it, we can have it; if you don't
want it, all right. Wait a minute -- that's your baby.

MR. LINZ: If the rest of them want it, I don't mind.

Q. That's right -- if the man wants to explain --.

H.M.JR.: I guess you want to live up to the rules. I want to
say, in the first place, this gentleman is a foreigner,
and we want to be extremely courteous to him. The
easiest thing for me to do is to make a flat denial.
I don't want to do that, so I've asked him here to give
him the opportunity, and if he says he wants to do it
for background, I think we ought to go along with him.
After all, he belongs to your guild.

MR. DENOYER: Mr. Secretary, I appreciate very much your courtesy.

H.M.JR.: You say it any way you want to -- because this is
terribly important, and if you want to do it for back-
ground, I'm sure the other correspondents will be will-
ing.

MR. DENOYER: I feel that if it's not for direct quotation, I can
give you much more and for background I can give my
colleagues much more information on how that cable of
mine was written.

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H.M.JR.: And, after all, I can say for you -- you have your home office to consider and you don't want to throw down your editor, but it's terribly important so if you want to explain it for background --.

MR. DENOYER: I have just been back from France and I am taking up threads as I have left them about three months ago, and I have, since I've been here, not had any occasion yet to write anything at all about the financial situation. And it seemed to me of interest to take up, in view of the interest that the French public has in its own situation, to have an occasion to tell about the reaction here to the French situation. I'm going to read you (I don't think that I can do any better) a rough translation of the cable I sent yesterday. I sent this cable yesterday, early in the afternoon, before having seen even the French Ambassador, Mr. Bonnet, before having seen anybody at the embassy, and, therefore, what's contained there is not at all from any embassy source -- I'm volunteering that because I realize what embarrassment that may put you, Mr. Secretary. If you believe that the French Ambassador has reported a conversation that he has had with you, he has not -- that is positive, and checking on the cable hours may very clearly show that. This cable was sent

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before I saw the French Ambassador, Mr. Bonnet. I saw him only when I went to the press conference at the embassy last night and this was sent out before.

H.M.JR.: As a matter of record, Mr. Bonnet was here Monday afternoon.

MR. DENOYER: I didn't even know the date and you will see that I know so little about the exact time that you have seen him.

H.M.JR.: He was here Monday.

Q. That's all right -- on the record?

H.M.JR.: Yes.

MR. DENOYER: It was a courtesy visit such as every ambassador coming in the new country makes. Was it not?

H.M.JR.: You finish, if you don't mind.

MR. DENOYER: What I said is this: (Translation of cable to Petit Parisien in French) "The American authorities again follow carefully the financial and monetary situation of France. The policy of the three great democracies (may I interrupt here to say that if this vague formula is vague here, it will present something a little more definite in France). The common policy of these three great democracies -- the policy of the three great democracies inaugurated by the tripartite agreement of September last (the translation is a vain word --

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it would be a little stronger to say it is a substantial reality). They have and they are disposed to do all they can (they, the authorities) they are disposed to do all they -- the authorities -- can to help France in her present difficulties. Mr. Morgenthau, the minister of finance of the United States, has given such an unequivocal assurance to Mr. Georges Bonnet, our new ambassador, in the courtesy visit that Mr. Bonnet made to him at the beginning of the week. But -- but what can the American Government do (note of interrogation)? Its good will is limited by laws which reduce considerably its possibilities of action. (By this I had in mind that certain people in France have been looking towards the United States for credits, as you are well aware, and this is, I believe, something that is not possible in view of the Johnson law. Now, for our public, I thought it was a good thing to remind them that whatever the good will of the American authorities in such a circumstance, the good will that has been demonstrated at the time of the tripartite agreement, whatever it is, it is considerably limited by the laws of the United States.) The news cabled from Paris to the Wall Street Journal according to which Mr. Charles Rist would be called by the French

Cabinet to give his advice to the French Government has produced a good impression. Mr. Rist is known here as one of the first economists in the world and has the sympathy and the confidence of all American circles." This is the text of my cable.

H.M.JR.: Have you got an extra copy?

MR. DENOYER: No, I have none, but I could have one made or you could have one made here.

H.M.JR.: Well, I think you realize that this is of terrific importance -- I'm talking absolutely off the record. I'll give you something on the record, don't worry, Clarence (Linz). And I don't want to say anything that is going to unnecessarily upset things, but, on the other hand, I can't let a statement like that stand, you see. This is one of the most (not for ourselves but for your country) one of the most difficult things, so excuse me for one minute -- I don't want to do anything unnecessarily.

(Newsmen wait while the Secretary confers with Mr. Gaston)

H.M.JR.: Now, this is on the record. What I'd like to say is this: That the interpretation as carried by the United Press of the dispatch of the Washington correspondent of the Petit Parisien of the conversations that took

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place between Mr. Bonnet and myself is entirely erroneous.

MR. KLEIN: You mean the United Press interpretation of that dispatch is erroneous?

H.M.JR.: No, no, as carried by the United Press. Read it back, Miss Chauncey. (Miss Chauncey reads "That the interpretation.....erroneous," as above.)

MR. KLEIN: I still feel the phraseology might lead to the impression that the United Press interpretation is erroneous.

MR. GASTON: The interpretation in France, as reported by the United Press.

H.M.JR.: Read it again, Miss Chauncey. (Miss Chauncey reads statement again) Let's say "The interpretation reported by the United Press." We want to say reported by the United Press of the dispatch of the Washington correspondent. Read it once more through, please. (Miss Chauncey reads.) "The interpretation as reported by the United Press of the dispatch of the Washington correspondent of the Petit Parisien of the conversations that took place between Ambassador Bonnet and myself is entirely erroneous."

H.M.JR.: Do you have any objection?

MR. DENOYER: No, Mr. Secretary.

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- H.M.JR.: That doesn't make it embarrassing to you?
- MR. DENOYER: I don't think so.
- H.M.JR.: Do you think it will make it embarrassing to the ambassador?
- MR. DENOYER: I'll explain it to him as I did to you, but I don't think it does.
- H.M.JR.: Miss Chauncey, read it. (Miss Chauncey reads statement.)
- MR. DENOYER: It's satisfactory to me, although I could not speak for the ambassador -- I don't see how he could object to that.
- H.M.JR.: As a matter of fact, here's a stenographic report of my conversation, of what took place between Bonnet and myself. For you people's information, Mrs. Klotz was here and Dr. Livesey and the two of them dictated this thing -- this is a verbatim report; it's written by Dr. Livesey and Mrs. Klotz -- there can't be any question of what was said--they were both present at the conference.
- MR. DENOYER: I don't see how there could be any objection on the part of Mr. Bonnet; I don't know what you said or Mr. Bonnet said.
- H.M.JR.: But I know what I said and Dr. Livesey and Mrs. Klotz were in the room and went out and wrote this for me

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and this is a verbatim report. It was a perfectly friendly, amicable conversation.

Q. Don't both dispatches say, in effect, that you expressed to the ambassador your interest in the French problems and we're all interested?

A. We're all interested, and, as I said, President Roosevelt and myself have demonstrated over the past two years our friendship and interest in the French Republic and will continue to do so.

Q. Well, are the dispatches at variance with that?

A. Oh, yes -- "unequivocal assurance" of support.

Q. Mr. Secretary, isn't that what you gave them in the stabilization agreement -- unequivocal -- isn't that what we were told?

A. Gentlemen, take my word for this.

MR. KINTNER: I'm not questioning your word, but I can't understand why this should be important.

A. Well, time will tell. You have never seen me more serious, have you?

MR. KINTNER: No, that's what I can't understand.

A. Well, you'll just have to take it on faith.

Q. Mr. Secretary, if we can leave that for the time being, there's another United Press story that the franc is going to drop.

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A. I have no comment, but, as far as you are concerned, your professional standing and everything -- are you entirely satisfied?

MR. DENOYER: Certainly, Mr. Secretary.

A. Have I treated you courteously?

MR. DENOYER: Yes, and I want to express publicly my appreciation. I have not doubted it before, but this is another evidence.

Q. Mr. Secretary, there's also a report from Paris that the French Government is ready to stabilize the franc at 112 to the pound.

A. Well, I have no comment.

Q. Mr. Secretary, from London we have a story that a lot of syndicates are investing for Americans in securities abroad and in that way American investors are managing to evade capital gains and other taxes; any thought being given as to how that might be corrected?

A. At this particular time I have nothing. That's included in the study that the three organizations are conducting. We're perfectly aware of that -- how shall I put it?

Q. Tax avoidance.

A. No, it hasn't been substantiated -- that rumor that that is taking place -- but to date it hasn't been substantiated. That's a matter which particularly comes under SEC and, up to date, has not been substantiated -- dealing in stocks outside the United States, running of pools and that sort of thing.

Q. This is a capital gains and loss tax.

A. No, this is an operation of New York stocks outside the jurisdiction of the SEC -- it's particularly their problem -- they're studying it.

Q. Mr. Secretary, may I say I got a call-back on that and this is where they were doing it to escape income taxes -- it wasn't a pool operation.

A. All I can say is we have heard about it and that's one of the things we're studying. We still have nothing -- we have no facts.

Q. How near are you ready with the whole report?

A. No nearer.

Q. How do you feel about the railroad retirement tax?

A. Oh, I'm not ready to talk on that. Mr. Latimer only sent us his report this morning and we haven't had a chance to read it yet -- it just came in this morning. But Herbert Gaston talked to you boys about it, didn't he?

Q. Yes.

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- A. There's nothing to add. Latimer's report just came this morning.
- Q. Mr. Secretary, do you intend to let us see the transcript of your conversations with Mr. Bonnet?
- A. Do you want to bet on it?
- Q. I was just asking the question.
- A. I just wanted to know if you wanted to make a little side bet before I give you an answer?
- Q. I'll make a bet if you will produce the evidence.
- A. I mean, it leaves us a little bit in doubt.
- Q. No, I just mentioned the fact that I had this thing to show you gentlemen that when I went into such great detail that I wasn't just relying on my memory as to what I did or didn't say. I was very meticulous in seeing that the conversation was written down.
- Q. Everybody reading this story will say what did they say? "What did the doodle-buy say?"
- MR. GASTON: I think that general statement you made covers the situation.
- H.M.JR.: My general statement is that Mr. Bonnet came to exchange respects; that we had a very pleasant exchange of views, and I assured him that the

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interest of the United States Government in the welfare of France had been demonstrated during the past two years and that we would continue to do everything that we could and still live within and up to the spirit of our existing laws.

MR. DENOYER: Which is just what I said.

A. Which is quite different than what they interpreted what you said -- it's quite different.

Q. Thank you, Mr. Secretary.

ooOoo

Petit Parisien

American authorities are again carefully watching the French financial and monetary situation. As the policy of the three great democracies inaugurated by the tripartite agreement of last September was not merely a matter of empty words for them, they are inclined to do all they can to help France in its present difficulties. Morgenthau, American Secretary of the Treasury, gave an unequivocal assurance on this point to Georges Bonnet, our new ambassador, in the courtesy visit which the latter paid at the beginning of the week. But what can the American Government do? Its good will is limited by laws which considerably reduce its possibilities of action. The news cabled from Paris to the Wall Street Journal according to which Charles Rist will be called on by the cabinet to give his advice to the French Government has produced an excellent impression. Rist is known here as one of the leading economists in the world. He is surrounded by unanimous sympathy and confidence in American circles.

denoyer

Translated by Addler, Division of Research and Statistics.

WESTERN UNION PRESS MESSAGE

U.S. PATENT
OFFICE

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

march 3 -

(Charge French Cable Co)

Press

Petitsien Paris (Via French Cable)

autorites americaines x suivent de nouveau soigneusement
situation financiere et monetaire de France stop la politique
des trois grandes democratiees inauguree par accord tripartite de
septembre dernier netant pas un vain ~~new~~ mot pour elles ~~au~~
elles sont disposees a faire tout leur possible pour aider france
dans ses difficultes actuelles stop morgenthau ministre des
finances americain en a donne une assurance non equivoque
a georges bonnet notre nouvel ambassadeur dans la visite de
courtoisie que celui-ci lui a faite au debut de semaine stop
mais que peut faire gouvernement americain interrogation sa
bonne volonte est limitee par ~~un certain nombre~~ deslois qui
reduisent considerablement ses possibilites d'action alinea
la nouvelle cablee de paris au wall street journal suivant laquelle
charles rist serait appele par ~~gouvernement~~ cabinet a donner
ses conseils au gouvernement francais a produit ici une excellente
impression stop rist est connu ici comme un des premiers
economistes du monde stop il est entoure d'une ~~confiance~~ ^{confiance} et d'une
sympathie et d'une confiance unanimes dans milieux americains

de noyer

March 4, 1937.
10:21 a.m.

- Latimer: Talked to George Harrison. He's expected to talk to Mr. Pelley and no wires have been sent out.
- H.M.Jr: Ah ha. Well I got Mr. McIntyre myself and I also spoke to the President and it seems that Mr. McIntyre's been handling this for the President and he thought if they did it by word of mouth that they could protect the President's interest in that way.....
- L: Yes.
- H.M.Jr:and Mr. McIntyre assured me he - he first thought that you'd talked to Mr. Pelly.
- L: No sir, I have not.
- H.M.Jr: Well he's going to talk to them. And I think if Mr. McIntyre talks both to Mr. Pelley and Mr. Harrison why then I think the President's interest will be protected.
- L: You're - you're satisfied then all right.
- H.M.Jr: I'm satisfied.....
- L: Yes.
- H.M.Jr:because the only think I want is the President's interests protected and I think they will be under these circumstances.
- L: Yes. I've - I've sent over a memorandum to Mr. Bell and to Mr. Magill on this whole situation.
- H.M.Jr: All right, thank you very much.
- L: Yes sir.
- H.M.Jr: Thank you.

March 4, 1937

At 11:55, Dr. Feis telephoned the following message:

"Mr. Henry, of the French Embassy, whom I know very well, just telephoned me this message from the Ambassador, asking me to pass it on to Mr. Morgenthau:

'That the Ambassador is wholly amazed at the telegram in the Petit Parisien; that he had not seen the correspondent of the Petit Parisien, who is Mr. Denoyer, except at the press conference yesterday afternoon which was subsequent to the despatch of the message, and at the press conference there was no reference made whatsoever of his talk with Mr. Morgenthau. Mr. McDermott, in charge of Press Relations for the State Department, was present at the press conference and confirmed that fact.

'The Ambassador is very much disturbed by what has taken place. He telephoned to Denoyer to tell him so and Denoyer more or less admitted that it was a story that he more or less made up because he knew that the Ambassador had talked with Mr. Morgenthau.

'That Mr. Bonnet wants to assure Mr. Morgenthau that he realizes that all conversations with the Secretary of the Treasury are completely confidential and he discusses them with nobody. He, therefore, hopes that this episode will in no way interfere with their relations.'

March 4, 1937.
12:14 p.m.

H.M.Jr: Hello

Operator: Mr. Henry. Go ahead.

H.M.Jr: Hello Mr. Henry.

H: Oh good morning, sir, Secretary.

H.M.Jr: I'm calling you rather than the Ambassador because I thought you might understand me better, you see?

H: Yes.

H.M.Jr: I thought if you have not already done so I suggest that you send for the correspondent of the Petit Parisien....

H: He's coming to-day, yes.

H.M.Jr:and let him tell you just what happened in my Press Conference, you see?

H: I see.

H.M.Jr: Because I had him here, you see?

H: Well did you receive the message I gave the chauffeur?

H.M.Jr: I just have it here.

H: Because the Ambassador ^{never} saw Mr. Denoyer till yesterday and he did not mention the your conversation at all.

H.M.Jr: Well Mr. Denoyer said that here.

H: What?

H.M.Jr: He said so here publicly.

H: Who said so?

H.M.Jr: The representative of the Petit Parisien said he had never discussed with the Ambassador....

H: Oh, did he say that?

H.M.Jr: Oh, yes.

H: Well then why did he invent that telegraph?

H.M.Jr: He did - he read us the telegram.

H: Yes, of course, he did - he did but we could - the Ambassador is going to tell him that he has no business to wire to Paris on such important matters which is very

H.M.Jr: Well his telegram didn't say. He read us the telegram here and gave me a copy of it.

H: I see.

H.M.Jr: And in his telegram he did not say what the paper printed. His telegram was all right.

H: Oh, I see. Then it was in Paris that it was - ah

H.M.Jr: It was in Paris and this gentleman is - was all right - that's what I'm calling up for.

H: Oh, I see.

H.M.Jr: And he very - he gave us a copy of the original telegram and he said nothing in the telegram which I could take any objection to.

H: In other words, the putting on was - met with your approval after your conversation with the Ambassador.

H.M.Jr: Entirely.

H: But it was transformed in Paris.

H.M.Jr: It was different in Paris.

H: Oh, I will send that to the Ambassador right away.

H.M.Jr: And tell him that this man -

- H: At the same time Mr. Secretary as long as you're on the telephone I can give you full assurance on the part of the Ambassador that he'll never discuss with anybody the terms of his conversation with you.
- H.M.Jr: Well, I'm sure he didn't.
- H: Because you know particularly well - we realize as well as you do the importance of confidence between you two.
- H.M.Jr: Well.....
- H: And you may be assured that M. Bonnet never said one word which you yourself would not have heard.
- H.M.Jr: Well I'm as sure that he hasn't and.....
- H: We are going to check up in Paris to see what happened there.
- H.M.Jr: Well whatever happened happened in Paris.
- H: All right, thank you so much, Mr. Secretary.

March 4, 1937.
12:17 p.m.

H.M.Jr: Hello

Operator: Dr. Feis. Go ahead.

H.M.Jr: Herbert.

Feis: Good morning.

H.M.Jr: Good morning. I just read your memorandum and I just called Mr. Henry back.

F: Yes.

H.M.Jr: I want to tell you what took place at my Press Conference. It was rather unique. I had this representative of the Petit Parisien here.....

F: Yes.

H.M.Jr:and to our American correspondents he read the copy of this cable - he had a copy of the cable and in that cable he said nothing to which I could take any objection.

F: I see.

H.M.Jr: Whatever done was done on the other side.

F: That's mighty interesting.

H.M.Jr: And we made a photostat of his cable.

F: Would you send us a copy?

H.M.Jr: Ah - yes.

F: I - I think it will amuse everyone very much.

H.M.Jr: I will have - see that you get a copy.

F: Thanks.

H.M.Jr: And I called up Mr. Henry to tell him that I wanted to assure him that what this man had said that we took no objection to it and his cable was all right. Of course - ah - and all I'd have said was had ^{practically} paraphrased what he had in his cable, namely, that we'd met, had a very friendly discussion and that we assured Mr. Bonnet that America had proved its friendship

- 2 -

for France in the past and would continue to do so in the future always remembering that we had to live up to both the letter and the spirit of the law. Hello

F: Yes I'm listening.

H.M.Jr: And that's what they took.

F: I see.

H.M.Jr: And that was what I told Bonnet.

F: Of course.

H.M.Jr: But as far as Bonnet is concerned he's all right and as far as the representative of the Petit Parisien he's all right.

F: Good.

H.M.Jr: And whatever took place, took place on the other side. I told that to Henry.

F: Good.

H.M.Jr: And he was, of course, tremendously pleased.

F: Good.

H.M.Jr: So that was that.

F: Fine.

H.M.Jr: Now I asked Mr. Mallet to come here at 4:30 to give him a further answer on his cable.

F: Yes.

H.M.Jr: And if you could be here I'd like it.

F: I'd like to be there.

H.M.Jr: Right.

F: Right. I've been thinking. You got me steamed up yesterday morning.

H.M.Jr: Good. I wanted to.

- 3 -

F: And in a couple of days I may have some formal idea.

H.M.Jr: All right.

F: Right.

H.M.Jr: Thank you.

F: Thank you, Henry.

March 4, 1937.
12:32 p.m.

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H.M.Jr: Cochran.

H. Merle
Cochran: Hello Mr. Morgenthau, yes.

H.M.Jr: I'm not on the diplomatic channel so I'll just be factual.

C: I - I don't hear you.

H.M.Jr: I'm not on the what they - on the secret channel

C: I understand.

H.M.Jr:and I wanted to tell you that this morning a dispatch was cabled here which was supposed to run in the Petit Parisien....

C: Yes.

H.M.Jr:in which I was supposed to have said to Bonnet that we'd give them unlimited support.

C: Yes.

H.M.Jr: Well I had the Washington correspondent in from the Petit Parisien....

C: Yes.

H.M.Jr:and he showed me a copy - original copy of his cable

C: Yes.

H.M.Jr:and in that cable he said no such thing himself....

C: I see.

H.M.Jr:and whatever misunderstanding took place, took place in Paris and not here in Washington....

C: I see.

H.M.Jr:and I wanted to make that plain.

C: I see.

- 2 -

- H.M.Jr: And I talked twice to the French Embassy here and I had in the Paris correspondent of the Petit Parisienne and he showed me his cable and his cable contained no statement that I offered the French unlimited support.
- C: Well the - the - have you seen my cable yet reporting the - the - the story which the Petit Parisienne carried?
- H.M.Jr: No.
- C: I sent that at 1 P.M.
- H.M.Jr: Well we'll get it most likely tomorrow.
- C: Well it ought to be in before that.
- H.M.Jr: Yes.
- C: Because the Petit Parisienne story wasn't as broad as you indicate.
- H.M.Jr: Well that's the way the United Press carried it.
- C: Oh, no - no - no. It just has this: "The American authorities are once more following closely the financial and monetary situation of France. The policy of the three great democracies inaugurated by the tri-partite agreement of last September is not an empty word to them as they are prepared to do their utmost to assist France in its present difficulties."
- H.M.Jr: Ah-ha.
- C: "M. Morgenthau, American Minister of Finance, gave a definite assurance of this to M. Georges Bonnet, upon his visit of courtesy at the beginning of the week but what can the American government do? Its good will is limited by law which considerably reduced its possibility of action." Now that's the main part of the story.
- H.M.Jr: Well I had a Press Conference and we went into it very carefully and the French representative read publicly his cable here, see?
- C: Yes sir.

H.M.Jr: To the American correspondents.

C: Yes.

H.M.Jr: So I guess it will all be straightened out.

C: Yes, well have you had the other cable I sent this morning? I sent one at 12 noon giving you very definite figures.....

H.M.Jr: No.

C: ...on the Treasury situation of this country.....

H.M.Jr: No.

C: ...that there's not going to be anything in payments -

H.M.Jr: Any what?

C: Any big receipts.

H.M.Jr: Ah-ha.

C: You asked that question yesterday.

H.M.Jr: No, that will all....

C: Yes, I was just down seeing the half holiday, you see..... this is a

H.M.Jr: Yes.

C:and so the market closed at noon at Paris.

H.M.Jr: Yes, I know that.

C: The - the pressure was very heavy here.....

H.M.Jr: Yes.

C: ...continued at London this afternoon.

H.M.Jr: Yes, we know that.

C: I just came from our particular friend at the bank.....

H.M.Jr: Yes.

C:you see?

H.M.Jr: Yes.

C: And they're all manners of rumors here - you may have seen them in the Press.

H.M.Jr: Yes, we have.

C: And can't concede any of them yet - not a one. The information - the - the - the idea which we had about the time limit is conservative, if anything.

H.M.Jr: Ah-ha.

C: I see and I'm fixing up a cablegram which we'll get out in just a little while now.

H.M.Jr: Well thank you Cochran.

C: Yes, that's about all now.

H.M.Jr: Goodbye.

C: Good night.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 4, 1937, noon.

NO.: 302 FROM COCHRAN.

The French Treasury's situation as of the thirty-first of December, 1936, shows assets of about 18 billion francs, and about 47 billions in liabilities. The Treasury's assets include (a) about 9 billion francs in items which theoretically are repayable at short notice such as: about 353 millions to French shipping companies; 5 billions for armament; 2 billions for railways; and 735 millions to Algeria. (b) Also included are items totaling about 7 billions which are repayable at long term, such as: 1200 millions in loans to foreign governments; 2 billions to French banks; 3 billions to railways.

It is very unfortunate for the Treasury, but no one - so far as I am aware - expects substantial repayment under either of these headings at an early date. The debtors it is well known are having a hard time to provide for their own current needs. The railways for instance can only borrow with difficulty if at all according to an admission which Minister Auriol made before Parliament recently.

A total of at least 40,000,000,000 francs would be a conservative estimate of treasury requirements over and above the revenue during the present year. Within the next few months the more urgent need will probably arise.

The

- 2 -

The Treasury on the first of April must reimburse maturing ~~ix~~ loans of about 3,000,000,000 francs - this is for bonds, 5 1/2 percents, 1917 to 1937, amount \$2,000,000; and for Treasury bonds 4 1/2 percents, 1934, 3 to 10 years, amount 2,922,000,000 francs. According to recent statements by officials revenue from taxation is satisfactory but it will almost certainly fall short of requirements by a substantial amount notwithstanding the seasonal increase of tax revenue in the late spring.

It may be recalled, as of further interest, that about 370 billion francs is the present public debt total. The debt of the Departments and Communes in addition totals 40 billions, with 110 billions for the railways.

END MESSAGE.

WILSON.

EA:LWW

U

GRAY

Paris

Dated March 4, 1937

Rec'd 12:05 p.m.

Secretary of State

Washington

303, March 4, 1 p.m.

FROM COCHRAN.

Under the caption "Attitude of the United States toward France" LE PETIT PARISIEN today carried an item from its Washington correspondent dated March 3 of which following is translation.

"The American authorities are once more following closely the financial and monetary situation of France. The policy of the three great democracies inaugurated by the tripartite agreement of last September is not an empty word to them and they are prepared to do their utmost to assist France in its present difficulties.

"Monsieur Morgenthau, American Minister of Finance, gave a definite assurance of this to Monsieur Georges Bonnet our new Ambassador upon his visit of courtesy at the beginning of the week. But what can the American Government do? Its good will is limited by laws which considerably reduces its possibilities of action.

"The news cabled to the WALL STREET JOURNAL from Paris according to which Monsieur Charles Rist would be called (END SECTION ONE.
CSB

WILSON

PARAPHRASE OF SECTIONS TWO AND THREE OF NO. 303
of March 4, 1937, from Paris.

upon by the Cabinet to give his advice to the French Government made an excellent impression in Paris. Here Professor Rist is known as one of the world's leading economists. In American circles he enjoys unanimous sympathy and confidence.

In Paris we have a banking half holiday today. Unofficial exchange trading during the morning made very heavy demand for sterling with Bank of France yielding. Also very heavy demand for dollars. There was a rise in French rentes of around 2 francs. Strong French shares. Many rumors on market of which I mention the following as being the most general:

(1) There will be definite stabilization of the French franc over the week-end at the rate of between 105.15 and 107 to the pound.

(2) The French will lift gold restrictions. Those who have not yet complied with present gold regulations will be absolved from the penalties of the regulations.

(3) The Government has again consulted Baudoin as to a successor for the post of Governor of the Bank of France, and the most likely candidates are now considered to be Baudoin himself and Quesnay.

(4) There is no money in the French Treasury.

(5) Various experts have been consulted by Blum, and he himself may take charge of the finances of the

country

- 2 -

country without definitely dropping his present Minister of Finance.

(6) Some more important advisory post will be given to Professor Rist.

At 3:45 this afternoon I have an appointment at the Bank of France to see how much of the above rumors can be confirmed. I will cable again this evening after my interview.

END OF MESSAGE.

WILSON.

EA:LWW

OFFICE CORRESPONDENCE

DATE March 4, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF ENGLAND.

Mr. Bolton called me at 11:48 today. He mentioned that they had had rather a heavy day today, with a big movement of money leaving Paris and a consequent increased demand for dollars and guilders. So far, he said, they had sold \$6,000,000. I mentioned that we had done a quarter of a million pounds and were still buying at 4.88 9/16 but might reduce the price gradually if pressure became too heavy. Bolton thought that was a good plan.

I mentioned Cariguel's call of yesterday with regard to shipments of gold through the mails and Bolton stated that the underwriters were going to put the insurance rate up from 9 pence to 5 shillings. This increase applied, of course, to Lloyds only; continental insurance companies, however, might follow because of what he called "a fairish risk."

Bolton then referred to our recent conversation and to dealing with the question of a 24 hours notice. our cablegram of February 11. They had been in touch with the Treasury, he said, and could quite definitely say that the Treasury's feelings were the same as theirs. They had given him the following verbal message for us:

"We are satisfied with the working of the present informal arrangement and would prefer not to enter into questions of exact interpretation since we anticipate no practical difficulties and would in any case rely upon being able to arrive at a fair and amicable understanding with the Federal Reserve on any points that may arise."

OFFICE CORRESPONDENCE

DATE March 4, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

BANK OF ENGLAND.

- 2 -

The most important thing, he continued, was that he said I knew exactly where we stood. As far as they were concerned they would now bury this matter.

LWK:KNC

RECEIVED
MAR 11 1937
FEDERAL RESERVE BANK OF NEW YORK

March 4, 1937

4:30 p.m.

Present:

Mr. Mallet
Mr. Taylor
Dr. Feis

HM, Jr.: Two things. In the first place, I thought I would explain to you. I don't know whether the papers may have something about what I was supposed to have said to Mr. Bonnet when he was here.

Mr. Mallet: In today's paper?

HM, Jr.: What happened was the Washington correspondent of the Petit Parisien sent a cable over which I saw today and which was a perfectly straightforward cable which simply said we met and talked and made friendly gestures to each other. Then comes a United Press despatch in which it said that I had given "unequivocal assurances of financial assistance". Well, I had said no such thing and the correspondent was here and he had his cable -- no such language.

Mr. Mallet: That was published in France? Or did it appear in the papers here?

HM, Jr.: According to a telephone conversation which I had with Paris, it was not published in France that way. But the United Press says it was. I spoke to Mr. Cochran in Paris. He said it did not read that way, but based on the so-called Morgenthau statement they ran the rentes up two points. All that I told Mr. Bonnet -- I made very pleasant gestures and told him, of course we would continue to assist France as long as we could do so both within the letter and the spirit of our law.

Mr. Mallet: Yes.

HM, Jr.: Which is quite different from "unequivocal assurances of financial assistance" and I really would like you to tell your people that somebody, somewhere, somehow, has very definitely tried to twist what I said

-2-

and didn't say. I would not be stupid enough to say it.

Mr. Mallet: No; quite. But did this appear in the paper here?

HM, Jr: Well, it was on the United Press ticker service and it came out that way and then I had a press conference and let the French correspondent personally read to the American correspondents what he had written, and it was quite different.

As a matter of fact, if you care to have a copy of his despatch it would not take very long to give you a copy. Would you like to have it? They have laid so much importance on it, I will give you a copy of what the French correspondent did say.

Mr. Mallet: I think it would be useful to have on record.

HM, Jr: That's what I wanted it for. So much for that!

The other thing, the question which Mr. Chamberlain raises, as to whether we are in favor of free gold or not, I personally don't -- I mean, it makes very little difference what I do think at this particular time. We wouldn't tell the French, in any event, whether we believed in it or not. See?

Mr. Mallet: You wouldn't tell the French you are not in favor? What I think Mr. Chamberlain is saying is that we should tell the French jointly.

HM, Jr: Our pattern is different. What we followed here was to take all the gold privately held and it worked here. Whether that would work in France, I don't know and even if I was in sympathy with that, at this particular time I would not write out a formula.

Mr. Mallet: No.

HM, Jr: For the French. You see?

Mr. Mallet: Yes; quite.

HM, Jr: Is that clear?

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Mr. Mallet: Yes; quite.

HM, Jr.: I don't lay any stress on it in any event.

Mr. Mallet: Does that mean that you would rather that we didn't tell them either?

HM, Jr.: No.

Mr. Mallet: You don't mind if we tell them that if our Treasury sort of hankers after that -- I don't know -- in the least what they want to do.

HM, Jr.: The only thing we can join you in is we are both in complete accord that if the French ask us may they devalue a further 8% within the Tripartite Agreement, both Governments are in accord. I don't want to go any further than that.

Mr. Mallet: Yes; quite.

HM, Jr.: And the other matter -- after all, they have passed laws and under these laws they are supposed to take all of this gold.

Mr. Mallet: Yes.

HM, Jr.: Nor can we tell them that they shouldn't. See what I mean?

Mr. Mallet: Yes.

HM, Jr.: Under their decrees.

Mr. Mallet: Under their decree they are supposed to take it all.

HM, Jr.: Yes. And you and I say they shouldn't.

Mr. Mallet: I suppose what it would be really would be a criticism of what the Treasury was suggesting, as much as to say you were fools to do it before ...

HM, Jr.: I don't want to suggest to Mr. Chamberlain what he should or should not do, but I would not want to join him in it.

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Mr. Mallet: I telegraphed him what you were thinking last time and we have had nothing further from London.

HM, Jr: No. I left it sort of open and frankly I had a chance to show this cable to the President. He also feels that if we were going to make any suggestions that the pattern that we followed has been successful for us, but to suggest to a country that she should cancel a decree and reverse herself -- we don't want to do that.

Mr. Mallet: Yes.

HM, Jr: You see?

Mr. Mallet: Yes; quite.

HM, Jr: Because if the French came to us and said, 'What should we do?', we would say, 'Well, carry out your decree and take all the gold.' That is, if they asked us.

Mr. Mallet: Yes. Yes.

HM, Jr: So on that point, as I say, I don't agree with Mr. Chamberlain, but I don't lay any stress on it. Before I go any further, do you want to add anything, Herbert?

Dr. Feis: No, sir.

HM, Jr: All right so far?

Dr. Feis: I wholly agree.

HM, Jr: Wayne?

Mr. Taylor: All right.

HM, Jr: Please, either of you.

Dr. Feis: I wholly agree, without reservation.

HM, Jr: You might say that the combined Administration feels this way about the matter!

Now, the only other thing -- your people know it as well as we do -- you did \$8,000,000 today (the Bank

-4-

of England did) and we one and one-quarter million Sterling, so it's about the same. In francs. And we had a bad day.

Mr. Mallet: They came in from France?

HM, Jr: No. We had to buy $1\frac{1}{2}$ million Sterling and you people had to buy \$8,000,000 dollars. It just so happened that they are about the same. But both the Bank of England and ourselves had a bad day. That's no news, but it looks -- the signals look as though this was going to be the week-end.

Mr. Mallet: The storm signals.

HM, Jr: Yes, I would certainly say the storm signals are going up today. I wanted to tell you that and I do hope that Mr. Chamberlain will leave his week-end address.

Mr. Mallet: Yes, I hope so. They leave the Treasury unstaffed over the week-end.

HM, Jr: No, I am serious about that. You can put it as politely as you want, but don't miss the point, that somebody who can make a decision be available.

Mr. Mallet: I should have no doubt there would be someone.

HM, Jr: Now, Dr. Feis.

Dr. Feis: This thought occurs to me. Suppose -- just mentioning it, if you see anything in it that you might want to include in the communication. Suppose circumstances drove the French into some form of control irrespective of whether they want to do it or not. Then I think the important point, certainly from the Department's point of view, will be that that control be limited to capital and gold movements and is not turned into an exchange control dealing with trade movements.

HM, Jr: That's a lovely wish.

Dr. Feis: Well, I don't think it is at all an impracticable wish because, as I understand the French objectives, they would not have any wish to interfere

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with ordinary trade operations.

HM, Jr: No.

Dr. Feis: I think that's fairly clear. Their mission seems to be running the other way -- their desire to bring down prices.

HM, Jr: What have you got in your mind?

Dr. Feis: I would have in the back of my mind, although it may be premature to discuss it, that if the day should come when the French say 'We feel that we have got to impose certain control over the movement of foreign exchanges,' that either before that time we should have indicated to them or at that time promptly indicate to them that what I have just expressed

HM, Jr: Now, Herbert. Talking here -- in the first place, I don't know whether you know, or not, but last week I saw the Ambassador himself and asked him would he please send a message to Mr. Chamberlain whether there was anything he or I could do together. That's number one. Number two: when Mr. Mallet was here, a couple of days ago, I reminded him that I had not received an answer. If you don't mind my saying it, I don't want to go any further than that.

Mr. Mallet: I expect we will get an answer.

Dr. Feis: No, I did not think you would want to include that in this communication.

HM, Jr: And the other point is, I have been meticulous not to discuss anything but money from this chair. I have been very meticulous.

Dr. Feis: Then I can tell you this: the reason I feel -- when I was in Paris, last May, I carried (and then what was in mind was the first French crisis) I carried instructions from Mr. Hull which I then gave -- as a matter of fact, to Bonnet, who was then Acting Minister of Commerce, covering just the ground I have summarized to you now. Now we can do it again.

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HM, Jr: You can do it with Bonnet.

Dr. Feis: You can do it with Bonnet or in Paris.

HM, Jr: You can do it any way you want, but I think after you think it over I think you will think that I very definitely should not.

Dr. Feis: I agree it does not fit in this communication.

HM, Jr: It does not fit and I hope Mallet will not do anything at this time. I think the reason Mr. Hull is more than satisfied is that I am so very careful -- I never talk or send anything except straight financing.

Dr. Feis: All right.

HM, Jr: This particular session should not include that. If Mr. Hull wants to send for the British Ambassador or the French Ambassador and send that kind of a message, or through our Ambassadors, that's something different.

Mr. Taylor: It's part of the monetary picture.

HM, Jr: Now, listen. Do you mind? This is one time I am very definite. I don't want to mix

Dr. Feis: I think it's something Mr. Hull and you would want to talk over.

HM, Jr: That's all right. If he wants to send for the British Ambassador and send a message jointly, I would be delighted to come over, but where I am acting as Secretary of the Treasury

Dr. Feis: I began by saying you would not want to include it in this message.

HM, Jr: I would be delighted to come over and see the Secretary and send a joint message, but I again reiterate that I have been meticulous about my messages. They have all been straight finance.

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Taylor: We are completely in agreement. It does not have anything to do with this particular message, but when a fellow has \$15.00. You are deciding what he does with the \$15.00. It's pretty hard to say which is monetary and which one is trade because you can't separate them.

HM, Jr: That's all right. But this isn't the time or the place. But I think we will all have to be on deck for the next couple of days. This thing here is another United Press statement which came in at 2:12. You might like to read that.

Wonder what time the President of France has been going to bed recently?

Thursday
March 4, 1937
4:35 p. m.

360

HMJr: Hello
Treas.
Operator: Mr. Knoke, sir.

HMJr: Hello
L. W.
Knoke Yes, Mr. Secretary.

HMJr: Hello, Knoke -

K: Yes, sir

HMJr: How are things going?

K: Well, we've bought so far a total of a million two hundred and sixty-five thousand pounds -

HMJr: Yes

K: The market was five sixteenths -

HMJr: Yes

K: - offered; then we bid five sixteenths and couldn't get any more. Now we are bidding three eighths for small amounts as, I think they got twenty-five thousand pounds.

HMJr: I see.

K: My thought was that we would try at the close to bid it up a little.

HMJr: I see.

K: We are still, ^{and} even at this level of three eighths, but we can convert it to gold at thirty-four seventy-five and a half.

HMJr: I see.

K: Which still, I think we should do it. We should buy sterling at this level.

HMJr: Well, that's all right.

K: It's been a ^{very} heavy day.

HMJr: Yes

K: Things look very gloomy. I spoke to the Bank of England around noon time; I just dictated my memorandum -

HMJr: Yes

K: They said at that time they had done six million dollars and that was an enormous amount for the dollars as well as for guilders as a result of a flight of capital from France.

HMJr: They did six million dollars and we did a million and a quarter?

K: Yes, that is about the same -

HMJr: Yes

K: As a matter of fact it's remarkably alike.

HMJr: Yes

K: But, they - I think they are quite gloomy - they are very definitely expecting something to happen over the week-end.

HMJr: Well, that's nice. All right.

K: All right, sir.

HMJr: Goodbye.

K: Good day.

PARAPHRASE OF TELEGRAM RECEIVED

NO.: 305

FROM: American Embassy, Paris

DATE: March 4, 1937, 6 p.m.

I refer to the final sentence of my No. 303, 1 p.m., today. It was not possible for the friend I saw at the Bank of France this afternoon to confirm the rumors which I listed in my message. None of the Governor's assistants, not even the Under Governor, are being kept informed as to the Governor's current conversations with Blum and Auriol, my friend informed me. I was informed by my contact that not many would refute the reports, however, (a) that the stabilization fund is in bad shape, (b) that the Treasury is empty, and (c) that Labeyrie must go.

There was a terrific demand for sterling here this morning and the demand continued this afternoon on the London market. The Bank of France has gained approximately 100 million francs of gold from Spain since February 24. Some of this came since my telegram of February 26, which contained figures on the funds holdings. The final installment of the London sterling credit has been going quickly. I was told in the strictest confidence that if the pace of the last three days is kept up, the exercise of the fund cannot last for another week without drawing on the bank against

France

France for gold. Thus, at the Bank of France, although the technical men do not know what the higher authorities have in mind, they realize that it is only a matter of days before there will be a real crisis. I have just found out that there will be a special meeting of the Council of Ministers tomorrow. Baumgartner, incidentally, is being mentioned now as a possibility for the position of Under Governor of the Bank of France.

The following Reuter cablegram from Washington appeared in the LONDON TIMES today:

"The new French Ambassador in Washington, Monsieur Bonnet, today informed reporters that he intended to open war debt discussions with the Government of the United States. He also said that there were other 'equally important' questions in the economic field to be discussed."

The February 26 statement of the Bank of France showed no change in gold holdings and no change in advances to the Treasury. END OF MESSAGE.

WILSON

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

NO. 115

FROM: American Embassy, London

DATE: March 4, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

I learn the following, under conditions of strictest confidence, from sources which have proven in the past unusually reliable:

1. That measures are ~~now~~^{now} being formulated by the French authorities, the French fund having been reduced to a nominal figure by the constant drain of a milliard to a milliard and a half per week.

2. It is thought that the measures will be announced as soon as possible and will include the following:

(a) Further drawing on the Bank of France to increase the gold resources of the French fund.

(b) Some curtailment of expenditure and reduction in credits.

(c) Establishment of an agent for the gold market in the sense that Bank of France will buy gold at the market value.

(d) Eliminating penal measures on French funds abroad.

The use of more flexibility in the operations of

the

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the French fund. In practice this may mean a further depreciation in the value of the franc towards its legal limit over a period of time.

There is also being discussed the desirability of announcing a franc loan at the same time, with interest payable either in francs, dollars or sterling, or the franc equivalent of either dollars or sterling. Before any such action is taken the British and American Governments will be consulted. The idea, apparently, is to convince the Frenchmen with the effect of the determination of the Government to keep the present level by giving him some security against the possibility of its failure to do so.

BINGHAM

EA:EB

EXCERPT FROM 9:30 MEETING OF MARCH 4, 1937 - Phone Conversation with the President.

H.M.Jr: Hello (On phone) Hello, Mac? - - Oh. - - Why, we just - the news is that Mr. Bonnet is quoted as saying, from the French papers, that I guaranteed the French unequivocal assurance of our support.....

F.D.R.: Yes.

H.M.Jr:in the Petit Parisien.

F.D.R.: Yes.

H.M.Jr: And I thought that at 10:30 I would say - not call down Mr. Bonnet but call down the Petit Parisien, see?

And the other thing, they have called a meeting of the French Cabinet to discuss the further devaluation of eight percent, see?

And the thing - I didn't ask for you, you know, I asked for McIntyre. What I wanted to say to McIntyre was... - Well, I'd just as leave say it to you, sir, but I asked for McIntyre - you might tell him - that we sent Latimer over there the night before last - if you will remember, I spoke to you about it - with the idea of getting a telegram out explaining that the Government had not committed themselves....

F.D.R.: Yes

H.M.Jr:to this thing.

F.D.R.: Yes

H.M.Jr: And I'd like McIntyre to release it if you approve of it.

F.D.R.: Well, I'll give it to Mac.

(McIntyre takes phone)

H.M.Jr: Hello? - - Yes, Mac. You know, I asked for you, I didn't ask for the boss. It's on this telegram that Latimer wants to get out. - - Yes, I'm always glad to talk to the President, but this time I wanted you. - - Thanks. (Conversation finished)

Now, is that frank enough - "I'm always glad enough

to talk to the President, but this time I wanted you"?

Roche: That's good.

H.M.Jr: I had to do some awful fast thinking. I'm a little wheezy.

Oliphant: Fast working.

H.M.Jr: Whew! Luckily, I had that thing in front of me.

Magill: Just as well off.

Gaston: Of course, you could have asked what he was going to have for lunch.

H.M.Jr: Please give me a good mark for mental gymnastics.

Roche: That was the quickest thing I ever saw.

H.M.Jr: My headache's gone. I'm a little faint. I mean you don't get - I was prepared for McIntyre. Whew! Boy!

Magill: About two seconds it took, didn't it?

H.M.Jr: What?

Magill: To shift from Latimer to Bonnet.

H.M.Jr: Well, I mean I couldn't - I think I did right by our Nell, but..... I think that McIntyre must have known what was coming and put the President on.

Haas: Well, maybe he was already in there and the girl said you wanted to see him before he talked to the President and so he took it in there.

H.M.Jr: No, I think he said, "Let me talk to Henry and find out what's happened today." See, that's what happened.

How would I have felt if I hadn't thought so fast? But at least get this thing anyway - I've got another department in mind - when I start something, I see you boys through.

Magill: You certainly do.

Gaston: Just one thing - that Latimer didn't go on to send any telegram.

Lochhead: Oh well, we can put it this way - the telegram that Mr. Latimer wanted to send.

H.M.Jr: What?

Lochhead: I say you can say the telegram Mr. Latimer wanted to send.

H.M.Jr: I didn't dare make a record of it.