

February 23, 1937.

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

My dear Mr. Secretary:

It is becoming increasingly apparent that the speed and efficiency in handling project approvals would be greatly increased, and the necessity for handling hundreds of thousands of financial documents would be eliminated if the procedure now in effect whereby Statewide blanket projects are approved by the President under Limitations F and G of the Relief Appropriation Act, is applied to other limitations.

A sample check of projects submitted by the State Works Progress Administrations during the months of November and December indicated that the average time consumed in the Washington Works Progress Administration office in reviewing projects was approximately four days, that approximately nine days was consumed between the time the project was given the approval of the Works Progress Administration and the time that it was signed by the President, and approximately eight days was consumed between the date of the President's signature and final action by the Comptroller General. Adding two or three days for the transmission from Washington to the State, it appears that under present procedure almost a month elapses between the submission of the project by the State and receipt of notice that it can be operated.

The approval of blanket Statewide projects will eliminate not only the delay caused by the present procedure, but will decrease administrative expenses caused by the triple review of projects in the Works Progress Administration, the Bureau of the Budget, and the General Accounting Office. There should be no question that the Works Progress Administration exercises sufficient control in its own review to eliminate the necessity of a check and recheck, since the General Accounting Office has found it necessary to delete only six projects out of 9,800 approved by the Works Progress Administration under the 1936 Appropriation during the past three months.

The procedure of approving Statewide blanket projects also effects an immense saving in connection with the rental of

- 2 -

equipment and purchase of materials. Under the present procedure the General Accounting Office considers each official project as a separate appropriation account. Separate contracts for the purchase of materials and rental of equipment must be made for each project. This requires the preparation of hundreds of thousands of contracts, vouchers and encumbrance documents, a large proportion of which could be eliminated if contracts could be awarded under the Statewide blanket projects covering one or more project units.

Sincerely,

Harry L. Hopkins,
Administrator.

Thursday
March 11, 1937
12:07 p.m.

207

Guy
Helvering: Mr. Secretary -

HMJr: Yes

H: We've been in session here talking over this Chicago situation.

HMJr: Yes

H: We haven't heard anything from the Attorney General's office as yet.

HMJr: Yes

H: It has occurred to us that it might be better, knowing some of the situations that exist when McMahon and Igoe -

HMJr: Yes

H: - that the Attorney General be called and asked that Mr. Keenan come over.

HMJr: Yes

H: Or communicate with me to make an appointment.

HMJr: I - you'd rather have Keenan?

H: Well, I think we're all of the same opinion here, that that would be better.

HMJr: Well, why don't you call the Attorney General, or would you rather have me?

H: Well, I thought possibly it would be better for you to call him and tell him that no action has been taken on it and you'd like to suggest that Mr. Keenan come.

HMJr: Keenan better than McMahon, why not both maybe? Supposing I call up the Attorney General and - I'll call him up.

H: Do you want to talk to Mr. Graves, or any - ?

HMJr: No, no - it makes it a little difficult -

H: Yes, I can see.

HMJr: Why don't you call up the Attorney General yourself and say you've got the group and you're waiting there?

H: Yes

HMJr: See?

H: Yes

HMJr: Supposing you call up the Attorney General and talk to him and if you can't get him, call me back and I'll call him.

H: All right.

HMJr: See, call him yourself and if he doesn't - if he won't talk to you, let me know.

H: Yes

HMJr: Will you?

H: Yes, all right.

HMJr: Thank you.

H: I'll call right away.

(Short Pause)

12:40 p.m.

HMJr: Hello
Treas.
Operator: Mr. Helvering -

HMJr: Hello

T.O.: Go ahead.
Guy

Helvering: Hello

HMJr: Guy -

-3-

H: Yes

HMJr: Did you get Cummings?

H: I talked to him at five minutes after twelve -

HMJr: Good

H: And told me we - we called attention to the fact that you had called him and that we thought we - he wanted to know if it was a serious proposition. I told him I thought it was very serious. He said that he'd call me back in a few minutes if he could get a hold of Brien McManon or Joe Keenan.

HMJr: Yes

H: And I haven't heard - we're all right here yet but we haven't heard a word yet.

HMJr: Well, I tell you what I'd do. At five minutes of one, if you don't hear, I'd call him and say you're all going out to lunch and before you went out to lunch you wanted to hear.

H: Yes

HMJr: See?

H: Yes

HMJr: That's what I'd do.

H: We have just been in touch with Chicago and they - pretty serious developments out there since you talked to Mr. Graves this morning.

HMJr: Yes

H: You'd better let him tell you about them.

HMJr: All right. Put him on.

H. N. Graves: Hello, Mr. Secretary.

HMJr: Yes

G: Yellowley phoned in here that he had had a letter from Igoe -

-4-

HMJr: Yes

G: - requesting him to have ten agents of the Alcohol Tax Unit, they were named in this letter -

HMJr: Yes

G: - report to his office this afternoon at two-thirty.

HMJr: Yes

G: there was no indication of the purpose that he had in mind in asking for these men to come. And we discussed this down here; Mr. Helvering concluded that it would be improper for those men to be permitted to go.

HMJr: Improper?

G: Improper -

HMJr: Yes

G: So, Mr. Helvering communicated with Mr. Yellowley and asked him to hold in abeyance -

HMJr: Yes

G: - the sending of these men over there.

HMJr: Yes

G: The supposition is of course that we be in touch with someone of the Department of Justice before that.

HMJr: Yes

G: So that they may recall - or have Igoe recall that request.

HMJr: Yes

G: But we feel here that in the event that should not be done, Yellowley's people should not be permitted to go over there for that -

HMJr: No, no - I wouldn't. But - did you tell that to the Attorney General?

-5-

G: No, that - that was not said to the Attorney General.

HMJr: Well, did you know it?

G: I guess we didn't know it at the time Mr. Helvering talked with Mr. Cummings.

HMJr: Well, I've suggested that Helvering call the Attorney General again at five minutes of one -

G: Yes

HMJr: - tell of this latest thing.

G: Yes

HMJr: See?

G: Yes

HMJr: I'd call him at five minutes of one and tell him of what's happened.

G: Yes

HMJr: And ask him, "When are these men coming over?"

G: Yes

HMJr: See?

G: Fine

HMJr: And - (Laughs) I can't do anything more than that.

G: No, that's all right.

HMJr: But I wouldn't let these fellows go.

G: All right, sir, we won't let them go.

HMJr: No -

G: Fine

Thursday
March 11, 1937
12:51 p.m.

HMJr: Hello - hello -

T.O.: Hello, Dr. Burgess -

HMJr: Hello, Burgess -
W. R.

Burgess: Well, I see your exchanges came in pretty well, didn't they?

HMJr: Well, I haven't seen anything since last night. I don't know what the mail is.

B: Well, I haven't -

HMJr: But the - it was almost ninety per cent without a mail.

B: Yes - well, that's very satisfactory.

HMJr: Yes

B: Now, they're a little weak this morning, I think, sympathetically with the general market, because these Philadelphia Electrics -

HMJr: Yes

B: - aren't going too well.

HMJr: Yes

B: They're informally quoted under the issue price a little bit.

HMJr: Yes

B: So we've been spending a little money for you.

HMJr: That's all right; how much?

B: We've bought about two million, I think we're getting about five million - clean up one dealer.

HMJr: That's all right, we've still got lots of money.

B: Well, I thought you'd like to have us go right ahead. I think this is a good day to have it hold steady.

H.M.Jr: Pardon me?
B: This is a good day to have the market pretty steady.
HMJr: Yes, I'm satisfied.
B: Yes - Well, I just wanted to -
HMJr: No, I'm entirely satisfied.
B: Now, one little detail; I just got the notice on the -
on the Treasury bills.
HMJr: Yes
B: You're making the June issue payable in book credit?
HMJr: Yes
B: Not the other one, are you?
HMJr: Well, no, they met after I left - there were five of
them, Eccles and Taylor and Goldenweiser, Haas and
Bell; and they chewed it over for an hour and that's what
they agreed on and I said I'd agree to anything they would
B: O.K., I'll agree too. (Laughs)
HMJr: Have you any doubts about it?
B: Well, I would have - I would have considered making
it payable - making the December issue payable in
book credit, too, but -
HMJr: Yes
B: - I don't - it's not a large matter.
HMJr: Well, if it isn't - because I told them whatever the
five of them agreed on I'd sign it.
B: Yes - well, far be it from me to do anything different,
then.
HMJr: (Laughs) All right.
B: (Laughs)
HMJr: All right.
B: Very good.
HMJr: Thank you.
B: Goodbye.

Thursday
March 11, 1937
1:03 p.m.

214

Guy
Helvering: The Attorney General says that Mr. McMahon is in
Detroit -

HMJr: Yes

H: And that Mr. Keenan was in another building and is
on his way to his office now.

HMJr: Yes

H: He said he won't get to confer with him until early
afternoon -

HMJr: Yes

H: And - but he would do that.

HMJr: -es

H: He suggested possibly that if we want to go to lunch
we'd better do it, because he'd have him come over
immediately after lunch.

HMJr: Yes

H: I - took occasion to tell him, I read this letter
from Igoe to Yellowley which is as follows:

"Please have ten investigators placed in the
office of my assistant, Mr. Daniel D. Glasser, Room
857 - "

HMJr: Yes

H: "- United States Court House, Chicago, at two-thirty
p. m., Thursday, March 11th."

HMJr: Yes

H: I told him that we had taken it upon ourselves to ad-
vise Mr. Yellowley not to comply with that request.

HMJr: Yes

H: We thought perhaps that it might be well for Mr. Igoe
to withdraw it.

-2-

HMJr: Yes

H: And he said - he didn't make any comment on that, only he thought that it was the wrong thing for Igoe to do. But he'd have - He'd try to have Keenan here at two-thirty.

HMJr: He would?

H: Yes

HMJr: All right, now, what I would do is this; I think that we ought to put somebody on the four o'clock train to be out there tomorrow to advise Yellowley? don't you think so?

H: Yes

HMJr: Have somebody on the ground?

H: Yes

HMJr: Who do you think ought to go out?

H: Well I think there ought to be - of course, Mr. Avis is going out -

HMJr: Tonight?

H: Yes - Avis is going tonight and be there at eight o'clock in the morning.

HMJr: Good

H: Of course, Avis is our Chief Investigator -

HMJr: Yes

H: - here, you know?

HMJr: Yes

H: But, we're talking some about having an attorney from Mr. Oliphant's office go out with him.

HMJr: I think they should.

H: Yes

HMJr: I think, - is Opper there?

H: Yes

HMJr: Let me talk to him a minute.
Clarence

Opper: Hello

HMJr: Clarence -

O: Yes, sir

HMJr: I'd put the best man you can on the train with Avis at four o'clock to go out to Chicago to advise Yellowley.

O: Yes

HMJr: Who can you send who's a fighter?

O: I think Tom Manning.

HMJr: O.K., that's good.

O: He's - you know, he's been in these cases.

HMJr: Good -

O: He knows about them.

HMJr: Well, put him on the book.

O: Good - that meets with your approval?

HMJr: Yes

O: Now, do you want to make that definite or just tell him - ?

HMJr: No, I'd make it definite.

O: I thought maybe what developed this afternoon -

HMJr: No, I'd have him there anyway, because I don't think anything will develop.

O: I see.

HMJr: I'd have him there and see Yellowley through.

O: Yes - and have him go with Avis?

-4-

HMJr: Yes - I'm getting fed up on this thing and I don't know how long before I'm going to call in the newspaper men and spill the beans.

O: Well -

HMJr: And I'm not going to let the Attorney General kid me.

O: Well, what about across the street, though, wouldn't that be the next step?

HMJr: Well, I can - the man's overtied, I can't bother him.

O: I see.

HMJr: But, I certainly - I certainly wouldn't let our boys go over there at two-thirty.

O: No - well, we've already taken -

HMJr: All right. I'd put Tom Manning on the train with Avis -

O: I'll do that.

HMJr: And when Keenan comes I'd certainly be aggressive.

O: Right -

HMJr: I mean, this thing has come to a head now.

O: Well, of course, the thing we were going to try to put through was - to get Keenan himself to go out there.

HMJr: Yes, that's the important thing. But I'd send our own men anyway.

O: You'd do that?

HMJr: Absolutely!

O: All right, sir.

HMJr: Absolutely -

O: Did you want to talk to the Commissioner again?

HMJr: No - and - keep me advised.

O: I'll do that.

HMJr: Right.

March 11, 1937.
2:10 p.m.

H.M.Jr: Hello.

O: Mr. Keenan. Go ahead.

H.M.Jr: Hello

K: Mr. Secretary.

H.M.Jr: Talking.

K: Joe Keenan.

H.M.Jr: How do you do.

K: I was distressed when I learned from the Attorney General about that incident out in Chicago.

H.M.Jr: Yes.

K: And I want you to know that not alone he knew nothing about it but it was the first news I had of it.

H.M.Jr: Yes.

K: Because it's been invariable practice in our department that the slightest thing, whatever it is, that comes up goes directly to your desk or your subordinates.

H.M.Jr: Well that's what I thought.

K: Always and invariably. Now I called Igoe on the telephone.....

H.M.Jr: Yes.

K:and issued instructions to send all - whatever he had in a letter addressed to the Attorney General which would be transmitted to you directly.....

H.M.Jr: Yes.

K:and you distribute in your department as you see fit.

H.M.Jr: Yes.

K: And to suspend any further activities until he heard from us which would mean until we heard from you. If

there's anything going on in your own department you wanted to know about it yourself and that will be done. By way of explanation of what Igoe did I think I ought to say this to you.

H.M.Jr: Yes.

K: He tells me that there was a case being tried before Judge Bond.....

H.M.Jr: Yes.

K:and during that time there was some statement made by a witness or some testimony about some action on the part of an Agent in the Treasury....

H.M.Jr: Yes.

K:and that when an inquiry was made of Yellowley about his agent he said that the agent had been dismissed.

H.M.Jr: Yes.

K: He then asked or wrote a letter to Yellowley to come in and see him for the purpose of determining whether there was a violation of any of the civil statutes.

H.M.Jr: Yes.

K: I told Igoe that that was at variance with our universal custom.....

H.M.Jr: Yes.

K:and that not alone you people had a right to feel annoyed about it but we did here at Washington because we took sponsorship for those things and wanted it reported to us so we could turn it over to you.

H.M.Jr: Yes.

K: Now that's a long story but that's the whole thing and I hope that's satisfactory to you.

H.M.Jr: Well, of course, I'll be very frank - it isn't because this thing of Igoe has been going on now for months.

K: Well I never heard of it before to-day.

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

K: That is, you're satisfied that I'm doing what I can about it.

H.M.Jr: I'm satisfied that you're doing, yes....

K: Yep.

H.M.Jr:but I'm not satisfied - I mean as far as I know you've never been in on this thing.

K: Never heard of it before.

H.M.Jr: But Brien McMahon has.

K: Yes - who?

H.M.Jr: Brien McMahon.

K: That I never heard of. Suppose I do this - suppose I send for Igoe and have him come on here?

H.M.Jr: Well I really wish you would because here's the situ.....

K: I'll send for him to-day; I want to know about it.

H.M.Jr: Now we - this - this thing - ah - it goes back months. I had a very high class fellow.....

K: Yes.

H.M.Jr:come on from Chicago and told me a long story about Igoe.

K: Yes.

H.M.Jr: I said, "Now listen, if you've got any such information I'm going to call up the Attorney General and ask him whether he'd see you."

K: Yes.

H.M.Jr: I had Herbert Gaston take this man over and he told the Attorney General all about Igoe.

K: Yes.

H.M.Jr: Now - ah - there's a long story; we've got a long file and we just feel that we - not only can't we get any service out of Igoe.....

A: Yes.

H.M.Jr:and that he won't try our cases.....

K: Yes.

H.M.Jr:that he lets people off that he shouldn't -

K: Right.

H.M.Jr: We've got a lot of cases where people should be in jail and he lets them off.

K: Yes.

H.M.Jr: And now he's turning around and he thinks that Yellowley is back of this whole thing and he's trying to get Yellowley. Now that's the.....

K: Well all right. Now I'll tell you what we'll do.....

H.M.Jr: Now Herman Oliphant and Harold Graves and Commissioner Helvering - Gaston - everybody - we all know about this thing.....

K: Yes.

H.M.Jr:and I want to say this.

K: Yes.

H.M.Jr: That this is the only situation of this kind in the United States.....

K: Yes.

H.M.Jr:and sooner or later I - it's - every newspaper reporter in Chicago knows about it -

K: Yes.

H.M.Jr: - you can ask anybody about it - the papers have been full of it.....

K: Yes.

- 5 -

H.M.Jr:and I think, from the standpoint of the Department of Justice, it is a very serious thing.

K: Yes. You mean what he's doing out there now?

H.M.Jr: What he's been doing there for months.

K: Yes.

H.M.Jr: Now he turns around and tries to get Yellowley and I'm not going to stand for it.

K: Now when you say, Mr. Secretary, "what he's been doing months," you mean by way of loose prosecution or letting people go or failure to cooperate with your Department?

H.M.Jr: All of those.

K: Yes- you don't - this particular agent that he tells me of...

H.M.Jr: Is just one of many instances.

K: And that's a recent thing.

H.M.Jr: This thing that we're talking about we - I heard about it a quarter of eleven this morning.

K: Well now will Herman Oliphant sit down with me, Mr. Secretary, and go over it with me so that I can become better acquainted?

H.M.Jr: He will be delighted to.

K: I find out I'll have no trouble getting along with him.

H.M.Jr: Well you never have.

K: And we'll - we'll attempt to cooperate 100% with you people on any such matters.

H.M.Jr: Now if I may make a suggestion.....

K: Yes.

H.M.Jr: Ah - I think you should have Igoe here Monday....

K: Yes.

- 6 -

H.M.Jr:because Oliphant's up at Harvard to-day.....

K: Yes.

H.M.Jr:and will not be back until Monday.

K: All right, well I've issued instructions to stop everything, to cease and desist.

H.M.Jr: Yes.

K: But our.....

H.M.Jr: I - I - I'd like our boys to lay on your desk everything that we know about Igoe and there's an assistant of his.

K: Yes.

H.M.Jr: I can't - who tries our cases out there.

K: Yes.

H.M.Jr: The difference between.....

K: Is that one of the fellows Igoe brought in with him or found - do you happen to know?

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

K: An-ha.

H.M.Jr: But I think you'll find that if you don't handle it....

K: Yes.

H.M.Jr: Sooner or later you're going to have it blow up in your face.

K: Well we don't want that.

H.M.Jr: And I think you'll find that.....

K: You think that this is a little retribution on the part of Igoe of resentment.

H.M.Jr: Well I - that's what everybody in the Treasury thinks.

K: Well now we want their relationship wholesome and the thing to do is to bring him on and I'll wire him right - wire him to be here Monday morning.

H.M.Jr: Well I'd appreciate it because.....

K: And in the meantime I'd like to talk to Herman Oliphant before I talk to him.

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

K: When will Herman be back?

H.M.Jr: Herman will be back Monday.

K: Well why not make - why not have Igoe come on about Wednesday of next week so I can have a day or two to go over some stuff with Oliphant.

H.M.Jr: Well if you don't mind, I'm really worried what he's going to do out there.

K: Well he isn't going to do anything on these matters because we've - I've issued instructions to him and that he's accepted them of course but I want - I told him I want nothing whatsoever done in these matters without getting specific instructions from Washington and, of course, he's not awfully delighted about that but he'll take his orders.

H.M.Jr: Well all right but.....

K: Now I'll have him on here Monday but I think it would be better.....

H.M.Jr: Yes.

K:if I could talk to Oliphant for a day or two.

H.M.Jr: All right but, as I say, up to now we, frankly - we put our cards on the table....

K: Yes.

H.M.Jr:and now it's ended up by this fellow ordering ten of our boys over to his office.

K: Ten of them? He didn't - he just told me one of them.

H.M.Jr: No, we've had instructions for ten people to appear at his office.....

K: Yes.

H.M.Jr:at 2:30 today.

K: Well I want the same relationship that we've got down at New York. I think you get along all right down there.....

H.M.Jr: Oh swell, and look at the Baltimore case.

K: Yes

H.M.Jr: I mean - ah - everything is swell.

K: Well in both - in both of those instances, when they came to my attention, I suggested they bring them right over to your desk.

H.M.Jr: Now in the New York case - when that - when the case broke your District Attorney got the credit...

K: Yes.

H.M.Jr:he got the publicity.

K: Yes.

H.M.Jr: In Baltimore the same.

K: Yes.

H.M.Jr: Now there's - those two District Attorneys are friends of the Treasury and we like to think we're their friends.....

K: Yes.

H.M.Jr:but this boy out in Chicago -

K: Yes.

H.M.Jr: - There's something sour there.

K: Well you know he had judicial aspirations too.

H.M.Jr: Well - ah - I know - I know about that.

K: Yes.

H.M.Jr: And - and I really - I mean so far as I could take the attitude to hell with it.....

K: Yes.

H.M.Jr:but I'm telling you if you don't handle it....

K: Yes.

H.M.Jr:it's going to blow up right in your face.

K: All right, we'll have that understanding and Igoe will be here Wednesday and I'll get in touch with Herman Oliphant on Monday.

H.M.Jr: Swell.

K: All right.

H.M.Jr: I'm glad you're in on it.

K: Thank you.

March 11, 1937.
2:21 p.m.

227

H.M.Jr: Hello

Helvering: Hello

H.M.Jr: Guy

H: Yes.

H.M.Jr: Keenan just had me on the wire.

H: Yes.

H.M.Jr: And he's to telephone or telegraph to this fellow out there - Igoe - to do nothing more and he's ordering him to Washington.

H: I see.

H.M.Jr: And he says on Monday he's going to take up the whole thing with Herman Oliphant; he's going to study it personally for two days and then have Igoe here Wednesday and he's going to the bottom of it.

H: Yes.

H.M.Jr: I told him that as far as we were concerned - I said it wasn't a matter that worried us because we'd come out all right but I said, "If you don't get in on this thing it's going to blow up right in your face."

H: Yes.

H.M.Jr: So he said, "Well everything in New York and Baltimore was all right." I said, "Everything was fine." So he said, "I've ordered him to put everything he's got in a letter and mail it to the Attorney General and the Attorney General will turn it over to Morgenthau and until Morgenthau gets it that Igoe should cease."

H: Yes.

H.M.Jr: Now under those - and he said that - Keenan says that Monday he will sit down with Oliphant and go over the whole thing and he has not heard one thing of it before.

H: An-ha.

- 2 -

H.M.Jr: And he said he wanted to assure me that this was the first time he's been brought into this thing and he will concentrate on it and assured us that he will give us his full cooperation.

H: Well that's good. I'm glad that - I really would rather have him in than the other fellow.

H.M.Jr: Well - so I said Brien McMahon knows all about it and he said, "Now Mr. Morgenthau I'm telling you that this is the first time to-day I've ever been brought into this case."

H: Yes. Well I think that's perhaps right on Keenan's part.

H.M.Jr: So Keenan - I - I said - he said this is just a little - I said, "No, Keenan." I said, "This fellow is out to get Yellowley because we've complained about the way he's handled our cases." And I said, "I'm not going to stand for it."

H: Ah-ha.

H.M.Jr: See?

H: Ya.

H.M.Jr: So I think that under those circumstances, there's no use putting those fellows on the train.

H: Ah-ha. Yes. Well, of course, Mr. Avis is going on another matter anyhow.

H.M.Jr: Well, I'll tell you. Let those two men go out, and then Oliphant's lawyer to be back here Monday can give Oliphant the story.

H: Yes.

H.M.Jr: I think we'll let it that way.

H: Yes. All right.

H.M.Jr: Yes, but I think under the - I think it's all right now.

H: Yes. Well, I've - I've been holding these fellows here. We've been talking over this. They've had

lunch and just got back, so I'll let them go then.

H.M.Jr: Well, you tell them that - is Clarence there with you?

H: Who?

H.M.Jr: Clarence Oppen?

H: Yes.

H.M.Jr: Well, now tell him that Monday morning Keenan wants to get Mr. Oliphant to give him the whole story.

H: Yes.

H.M.Jr: See?

H: Yes.

H.M.Jr: So I'd let Oliphant's lawyer go out there, be back here Monday with the fresh story to give it to Oliphant, so Oliphant can give it to Keenan.

H: Yes. Well, I think we'll send Manning out then.

H.M.Jr: Yes, I would.

H: Yes. All right.

H.M.Jr: And have him back here Monday morning.

H: Yes

H.M.Jr: Now I'd call up Yellowley and make sure that Igoe has been told to lay off.

H: Yes. Well, we're going to call him right away. We - I called him this morning and told him -

H.M.Jr: Yes.

H: - until he heard further from us, don't send any men over there at all under that letter.

H.M.Jr: Well, now Igoe is supposed to have had the orders to - anything that he's got to put it in a letter and forward it to the Attorney General and to do nothing until he gets further orders.

H: Yes. Well, that's fine. I think maybe we can do something that way.

H.M.Jr: And - but let Manning go on out and be back Monday.

H: Ah-ha.

H.M.Jr: And let me talk to Clarence a minute.

H: Yes; all right.

(Pause)

H: Well, he's stepped out of the room.

H.M.Jr: Well, I'll leave - I'll talk to him when he comes back.

H: Yes; all right.

H.M.Jr: Thank you.

March 11, 1937
3:22 p.m.

231

H.M.Jr: Hello?

Operator: Burgess.

H.M.Jr: Hello?

Operator: Go ahead.

Burgess: Hello?

H.M.Jr: Do you need those smelling salts?

B: (Laughs) Pretty near (laughs).

H.M.Jr: Pretty near?

B: Yes.

H.M.Jr: Do you believe in Morgenthau luck?

B: (Laughs) I'm believing in it more and more.

H.M.Jr: I see. Ah - can I sell you twenty-five million two and one-halves? (Laughs)

B: (Laughs). Well, you've got seventeen more today to sell. (Laughs)

H.M.Jr: Seventeen?

B: Yes.

H.M.Jr: Well, I suppose we'll go fifty-fifty with the Federal Reserve today.

B: (Laughs) Well, -

H.M.Jr: A little hollow, that laugh.

B: (Laughs) I'm perfectly willing.

H.M.Jr: Yes, well that's a good sport, but I - I won't make you. No, we'll take them. We can use them.

B: All right. I think you got them at good prices. The market is just a little bit better at the close.

H.M.Jr: Harris tells me that at the last second there some jackass - I don't - buys one bond of each kind.

B: No!

H.M.Jr: One bond of each kind and marks it up 2 or 3/32nds.

B: No, we didn't do that.

H.M.Jr: Well, I - I want to be sure that whoever sees the press makes darn sure that they didn't think that we'd be as crude as that.

B: Yes.

H.M.Jr: But, seriously, there were four or five different issues - the last minute they mark it up 2 or 3/32nds on one bond.

B: Yes - ah-ha.

H.M.Jr: I - I - that's one of the stupidest things I ever saw.

B: Yes. Well, I'll follow that up.

H.M.Jr: I - I really wish you would because I think - I really think that you should and also take it up with the Exchange because I know we're going to get blamed for it.

B: Yes.

H.M.Jr: As Archie says, "I wouldn't buy one bond. I'd buy a hundred bonds but not one."

B: Yes; yes, that's -

H.M.Jr: What?

B: That's foolish.

H.M.Jr: Yes. It really - it looks awfully silly, and I'm sure that - that they'll say that it's the Treasury.

B: Yes, well I'm pretty sure we didn't but I'll check it up.

H.M.Jr: Ah - right at the end.

B: Yes.

H.M.Jr: And you bought seventeen?

B: That's right - yes.

H.M.Jr: Well, all right. Well, we've still got a little money left.

B: Yes. Well, it's all right. I think the explanation is this Philadelphia Electric thing perhaps.

H.M.Jr: How sour did that go?

B: Well, it's pretty sour. The word went around this afternoon that it was sour.

H.M.Jr: What - what houses were in on that?

B: Oh, everybody.

H.M.Jr: Yes.

B: Everybody in the Street - 60 houses.

H.M.Jr: Ah-ha.

B: But it was pretty big and -

H.M.Jr: Yes.

B: - coming right now it wasn't so good.

H.M.Jr: I thought it was nice of them that they didn't sell it yesterday.

B: (Laughs) Yes; yes, indeed. Well, I think this party will get over some time soon.

H.M.Jr: Yes.

B: I hope so.

H.M.Jr: All right.

B: First rate.

H.M.Jr: Cheerio.

B: Goodbye.

H.M.Jr: Goodbye.

March 11, 1937
3:33 p.m.

H.M.Jr: Hello?

Operator: Mr. Yellowley.

H.M.Jr: Hello?

Operator: Go ahead.

H.M.Jr: Hello, Yellowley?

Yellowley: Yes, sir.

H.M.Jr: This is the Secretary of the Treasury.

Y: Yes, how do you do, Mr. Secretary.

H.M.Jr: How are you?

Y: Oh, I'm feeling pretty good.

H.M.Jr: Now listen, Yellowley, I just want to let you know that I'm back of you as I told you in my office.

Y: Yes, sir.

H.M.Jr: Now Mr. Avis is taking the four o'clock train to come out there, and Mr. Tom Manning, one of Mr. Oliphant's main assistants, are coming - is coming out there also.

Y: Yes, sir.

H.M.Jr: And you don't have to do anything unless I order you to do it, see?

Y: Yes, sir.

H.M.Jr: And don't you do anything.

Y: No, sir, I'll sit steady.

H.M.Jr: You sit tight, and if you go to jail, I'll come out and - and bail you out myself.

Y: Well, thank you, Mr. Secretary.

H.M.Jr: And you don't let that fellow Igoe bluff you.

Y: Yes, sir.

H.M.Jr: Now, I've talked to the Attorney General and I've talked to Mr. Keenan, and they've sent for Igoe and he's going

to come here next week, and they're going to make him explain what - what this is all about.

Y: Yes, sir.

H.M.Jr: And don't you let any of your boys go over there either.

Y: No, sir, they're not going.

H.M.Jr: Now, the Attorney General -

Y: Now, Mr. Secretary, if they appeal it before the Grand Jury -

H.M.Jr: Yes.

Y: Then - then that's another thing. There's -

H.M.Jr: All right, now - that's what I'm sending Mr. Manning out there for to advise you.

Y: Yes, sir.

H.M.Jr: And he'll be there the first thing in the morning.

Y: All right; that's fine.

H.M.Jr: And if there's any trouble, or if you have any trouble why - I have in my office here now Graves and Mr. Opper and you call up the Commissioner, Helvering, or Mr. Graves, and we'll see you through this.

Y: Oh, that's fine then, Mr. Secretary. That's mighty good.

H.M.Jr: And I just wanted you to know personally I'm back of you.

Y: Well, thank you, sir, very much.

H.M.Jr: Okay.

Y: Thank you very much.

H.M.Jr: All right; goodbye.

March 11, 1937
3:45 p.m.

(Davis is Comptroller O'Connor's Secretary)

Davis: - see Mr. Marshal Diggs of the FDIC for a few minutes by appointment?

H.M.Jr: Could you tell me what it's about?

D: Ah - if you'll give me just a second to get to another telephone, I will.

H.M.Jr: Please.

D: Just a second.

(Pause)

D: Mr. Secretary?

H.M.Jr: Yes.

D: It has reference to - to a report that Mr. Crowley is leaving -

H.M.Jr: Yes.

D: - and the fact that he was attempting to name a successor.

H.M.Jr: Oh.

D: - and the Comptroller thought that you would want to get that information simply for what it might be worth to you inasmuch as the thought is possibly that the FDIC might become a part of the Treasury.

H.M.Jr: I see. Well, now, is that the whole message, or should I see Diggs besides?

D: I really think - I would appreciate it if you would see Mr. Diggs and if he - of course, you wouldn't intimate to him that I had passed on -

H.M.Jr: I get you.

D: Yes.

H.M.Jr: So you tell Diggs to stand by and I'll see him a little later.

D: In the afternoon?

H.M.Jr: Yes.

D: If you'll give me a ring, sir, I'll have him over from the FDIC on about 3 minutes' notice.

H.M.Jr: Thank you.

D: All right, Mr. Morgenthau.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

March 11, 1937.

TO Secretary Morgenthau
FROM Mr. Haas *MHA*

At 12:15 P. M. today, you explained to me a computation which Mr. Bell is having made, which provides a breakdown of Government expenditures by projects, etc. for the past four years and also a comparable table for the next fiscal year beginning June 30, 1937. You indicated the desirability of the Government taking recognition of the effect which these expenditures have on certain price, labor and relief situations. You felt that these expenditures should be adjusted so as to provide favorable rather than unfavorable effects on certain commodity prices, labor supply and relief conditions. You pointed out that now the expenditures are made without regard to these fundamental economic considerations. You asked that I secure the tabulations which you mentioned Mr. Bell was making, and complete a study along the lines which you outlined, by March 29, 1937.

March 11, 1937
3:45 p.m.

239

(Davis is Comptroller O'Connor's Secretary)

Davis: - see Mr. Marshal Diggs of the FDIC for a few minutes by appointment?

H.M.Jr: Could you tell me what it's about?

D: Ah - if you'll give me just a second to get to another telephone, I will.

H.M.Jr: Please.

D: Just a second.

(Pause)

D: Mr. Secretary?

H.M.Jr.: Yes.

D: It has reference to - to a report that Mr. Crowley is leaving -

H.M.Jr: Yes.

D: - and the fact that he was attempting to name a successor.

H.M.Jr: Oh.

D: - and the Comptroller thought that you would want to get that information simply for what it might be worth to you inasmuch as the thought is possibly that the FDIC might become a part of the Treasury.

H.M.Jr: I see. Well, now, is that the whole message, or should I see Diggs besides?

D: I really think - I would appreciate it if you would see Mr. Diggs and if he - of course, you wouldn't intimate to him that I had passed on -

H.M.Jr: I get you.

D: Yes.

H.M.Jr: So you tell Diggs to stand by and I'll see him a little later.

D: In the afternoon?

H.M.Jr: Yes.

D: If you'll give me a ring, sir, I'll have him over from the FDIC on about 3 minutes' notice.

H.M.Jr: Thank you.

D: All right, Mr. Morgenthau.

H.M.Jr: Thank you.

CONFIDENTIAL

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

241

MEMORANDUM
March 11, 1937

To: Mrs. Klotz
From: Chief Wilson, Secret Service

There is transmitted herewith copy of
the President's itinerary enroute to Warm
Springs, Georgia.

✓

Trip of the President to Warm Springs, Ga.,
March 11, 1937.

THURSDAY, Mar. 11.

Lv. Washington (Southern Ry.)..... 3:00 p.m.

FRIDAY, Mar. 12.

Ar. Atlanta..... 7:30 a.m. E.T.

Lv. Atlanta..... 6:40 a.m. C.T.

Ar. Warm Springs..... 9:30 a.m. C.T.

Members of the party:
THE PRESIDENT.
Mrs. James Roosevelt.
Hon. M. H. McIntyre,
Ass't. Secretary to the President.
Dr. Ross T. McIntire.
Miss M. A. Le Hand.
Miss Grace Tully.
Mr. H. M. Karnee.
Miss Roberta Barrows.
Miss Louise Hachmeister.
Miss Toinette Bachelder.
Mr. George A. Fox.
Mr. E. W. Smithers.

Secret Service operatives.

Newspaper men:

Mr. Walter Trohan,	Chicago Tribune.
Mr. Geo. E. Durno,	International News Service.
Mr. D. Harold Oliver,	Associated Press.
Mr. Richard L. Harkness,	United Press.
Mr. Philip Pearl,	Universal News Service.
Mr. J. Russell Young,	Washington Star.
Mr. Robert P. Post,	New York Times.
Mr. Claude A. Mahoney,	Wall Street Journal.
Mr. Coleman B. Jones,	New York Herald Tribune.
Mr. John O'Donnell,	New York Daily News.

Picture men:

Mr. T. H. Elkins,	A. P. Photos.
Mr. James Lyons,	Universal Newsreel.
Mr. F. I. Thompson,	International News Photos.
Mr. J. S. Thompson,	Acme News Pictures.
Mr. Hugo Johnson,	Paramount News.

Telegraph representative:

Mr. C. S. Linkins, Western Union.

Mr. G. M. Lawrence, D.F.A.,
Southern Railway,
In charge of Transportation.

MEMORANDUM OF SCHEDULE AND STOPS

Thu. Mar. 11 - Lv. Washington, D. C. 3:00 PM ET

Ar. Weyburn, Va. 5:20 PM ET - Coal and Water
 Lv. Weyburn, Va. 5:25 PM ET

Ar. Monroe, Va. 7:15 PM ET - Change Engine Crews
 Lv. Monroe, Va. 7:20 PM ET

Ar. Greensboro, N. C. 10:20 PM ET - Water
 Lv. Greensboro, N. C. 10:25 PM ET

Ar. Salisbury, N. C. 11:40 PM ET - Change Engines &
 Lv. Salisbury, N. C. 11:45 PM ET Crews

Fri. Mar. 12 - Ar. Greenville, S. C. 3:30 AM ET - Change Engines &
 Lv. Greenville, S. C. 3:35 AM ET Crews

Ar. Atlanta, Ga. 7:30 AM ET - Change Engines &
 Lv. Atlanta, Ga. 6:40 AM CT Crews

Ar. Williamson, Ga. 8:20 AM CT - Water
 Lv. Williamson, Ga. 8:25 AM CT

Ar. Warm Springs, Ga. 9:30 AM CT

NOTE: Change of time in Atlanta, Ga.

SOCIAL SECURITY BOARD
WASHINGTON, D. C.

March 11, 1937

See reply of
3-12-37

244

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

My dear Mr. Secretary:

In addition to the proposed amendments to the Social Security Act previously submitted to you, I am enclosing for your consideration a proposed amendment to bring seamen employed on American vessels within Titles II and VIII of the Act. This amendment has been worked out in cooperation with the Department of Labor. Since we are desirous of submitting this amendment to Congress at the same time as we make our other recommendations, we would appreciate it if action by your Department could be expedited as much as possible.

Sincerely

Coatman
Chairman

RECEIVED

MAR 11 1937

RECEIVED

Section . Subsection (b) of section 210 of said

Act is amended as follows:

(a) By inserting the words "or performed as an officer or member of the crew on any vessel documented under the laws of the United States" after the words "by an employee for his employer".

(b) By changing paragraph (4) of said subsection to read as follows: "(4) Service performed as an officer or member of the crew of a vessel documented under the laws of any foreign country, and service performed as an officer or member of the crew of a vessel documented under the laws of the United States where the contract of service is entered into in a foreign country and during such service the vessel does not touch at any port in the United States;"

Section . Subsection (b) of section 811 of said

Act is amended as follows:

(a) By inserting the words "or performed as an officer or member of the crew on any vessel documented under the laws of the United States" after the words "by an employee for his employer".

(b) By changing paragraph (5) of said subsection to read as follows: "(5) Service performed as an officer or member of the crew of a vessel documented under the laws of any foreign country, and service performed as an officer or member of the crew of a vessel documented under the laws of the United States where the contract of service is entered into in a foreign country and during such service the vessel does not touch at any port in the United States;"

MAR 11 1937

My dear Mr. Attorney General:

Referring to the criminal prosecutions involving E. H. Smith, E. H. Smith Company, Walter G. L. Smith, Los Angeles, California, dealt with in my letter of January 22, 1936, I understood these cases were to proceed to trial during the February Term. I should appreciate knowing the status of this litigation and the prospect for the early disposition of these cases.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

HDevon
3/10/37

March 11, 1937
3:55 p.m.

248

Bankhead: Hello, Mr. Secretary?

H.M.Jr: Talking.

B: What say?

H.M.Jr: Morgenthau on the wire.

B: Yes, this is Bankhead. How are you?

H.M.Jr: Oh, I'm fine.

B: Ah - one of my secretaries took a message from your office about that Perry matter that I spoke to you about - Bob Perry in Birmingham.

H.M.Jr: That's right.

B: And I didn't get clear in my mind what the message was.

H.M.Jr: Well, the message was \$200 up.

B: You what?

H.M.Jr: We raised him \$200.

B: A year?

H.M.Jr: A year.

B: Oh -

H.M.Jr: And that puts him, I think, for the time being, in the same class with about four other fellows. See?

B: Yes.

H.M.Jr: But that doesn't say we can't do something more later on.

B: Well, I want you to bear that in mind, Mr. Secretary. I appreciate what you've done, but I want to repeat what I've said about him.

H.M.Jr: I will.

B: Now, keep that - keep that in the back of your head for me.

H.M.Jr: Well, you see we're just in the midst of a reorganization -

B: Yes, I know.

H.M.Jr: And - but I'm going to watch him and I told the people that you're interested.

B: Yes; all right. Have you had any further repercussions about the French matter?

H.M.Jr: Completely - after the statement which came off the Hill, the whole thing just died down.

B: Well, that's fine.

H.M.Jr: And I appreciate your giving me a chance to see you.

B: Yes, all right. Thanks. Goodbye.

March 11, 1937
4:15 p.m.

250

H.M.Jr: Hello?

Operator: Go ahead.

Burgess: Hello?

H.M.Jr: Hello, Burgess.

B: Oh, I traced that thing down and that was not anybody acting for us.

H.M.Jr: I see.

B: And I didn't think it was.

H.M.Jr: All right.

B: But it was some broker and customer put through that - that last order. Now I know who the broker was - and he's a very good friend of ours and a very high grade broker.

H.M.Jr: Ah-ha.

B: But this went through without his seeing it, and I'm going to get him over in the morning, and tell him that I don't think he'd ought to be a party to it.

H.M.Jr: Okay.

B: I think that's - that's a good way to deal with it.

H.M.Jr: All right.

B: He was undoubtedly innocent--he probably didn't know that it was going on.

H.M.Jr: All right.

B: All we need do is call it to his attention.

H.M.Jr: Thank you.

B: It's too bad because it looks as though we'd done it.

H.M.Jr: Righto - thank you.

B: All right.

H.M.Jr: Goodnight.

B: Goodbye

March 11, 1937
5:00 p.m.

251

Operator: Congressman Ryan. Go ahead.

H.M.Jr: Hello?
James
Ryan: Mr. Morgenthau?

H.M.Jr: Talking.

R: This is Congressman Ryan, Mr. Morgenthau.

H.M.Jr: Yes.

R: I was out in Minnesota for the past week or so.

H.M.Jr: Yes.

R: And while I was there I heard some rumors - they were just rumors - that some efforts were being made to settle that lawsuit out there -

H.M.Jr: Yes.

R: - and to adjust some other matters in connection with that.

H.M.Jr: Yes.

R: Now, I don't know whether that's true or not because it came to me as those things will.

H.M.Jr: Yes.

R: But I wondered this - if when you - your investigation will probably show that anyhow and more definitely than I'd know.

H.M.Jr: Yes.

R: I was wondering if I could talk with you after you get your report or whatever it is that -

H.M.Jr: I'll - I'll tell you what I'll do. When Commissioner Helvering has completed his investigation, I'll ask him to get in touch with you. How's that?

R: That's all right.

H.M.Jr: I'll ask Commissioner Helvering as soon as he's got - his investigation is not yet completed but when it is I'll ask him to call you.

R: All right - thank you, Mr. Secretary.

H.M.Jr: How's that?

R: That's all right.

H.M.Jr: I thank you.

R: Thank you.

March 11, 1937

11:45 pm

PRESENT:

Mexican Ambassador
Mr. Taylor

HM, Jr: This went out on the wires this morning, (He handed the Ambassador photostat (copy is attached) of wire addressed to Collectors of Customs in the Continental United States).

Ambassador: (Read the wire) Thank you very much. This is just like you always do things.

HM, Jr: You helped us out when we had alcohol troubles.

Mr. Taylor: I told the State Department about it.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 11, 1937, 8 p.m.

NO.: 132

FROM BUTTERWORTH. FOR THE TREASURY.

The terms of the French loan now being made public have aroused curiosity though no real money interest. A good impression has been made by the fact that the loan has been limited to five milliard and that the French authorities have had the courage to fix a closing date.

Last evening the discussion at the Tuesday Club of the French situation turned into a demonstration of good will towards the French, whose representatives present were psychologically on the defensive. The British at the same time, could not altogether conceal their feeling of skepticism about the loan. There emerged one fact - that the French authorities were relying far more on the disbanding within France just now than on repatriation of capital from abroad to help them in the present circumstances.

It may be well to reiterate - in connection with the above and since recent telegrams on the French situation have been on technical difficulties of the recent monetary developments - that the British authorities (as I mentioned in my telegram No. 49 of February 5, 9 p.m.) are anxious about the position in France - whether the authorities are working on the political, economic, or financial angles.

It was ~~an~~ significant that in a conversation today
with

- 2 -

with responsible officials in the Foreign Office and the Board of Trade, both voluntarily expressed the strong hope that the financial measures which the French Government has taken would be adequate to help the French. It was their opinion that today Blum was politically stronger than at any time since he came into power. They did not think there was anyone to take his place, and that if France should be plunged into an internal crisis it was impossible to say whether Germany would be given an irresistible opportunity to profit thereby.

During the conversation reference was also made to the effect psychologically, economic-financially, and military of the defense program of the British. It was already apparent what the psychological effect was, and Germany's armament difficulties were being increased with the change in the world markets from being a buyers' to a sellers', and with the rise in prices, particularly raw material and metal, which the British program had in a measure stimulated.

The danger, it was made clear, lay particularly if an internal crisis paralyzed France, in that the defense strength coming from armament expenditure would not be formidable for a year or two.

There was a fairly large demand today for francs.

BINGHAM.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 11, 1937,

NO.: 342

FROM COCHRAN

SECTION ONE.

I have reported the bill as introduced and the law as finally passed amending the monetary law of October 1, and providing for a national defense loan for France. The March 10 issue of the JOURNAL OFFICIEL announced the cancellation by decree of the earlier decree published in the February 16 issue of the same paper, which brought undeclared gold into the category of products coming under the authority of the contraband law. As yet I have not attempted to give a full report upon the new gold regulations in France. I shall await such decrees or statements as may be issued with regard thereto.

I saw Cariguel at the Bank of France this afternoon, and I did however raise two or three questions informally with him. Cariguel confirmed that there are no restrictions on the import of gold. In May 1936 he said the Governor of the Bank of France (Tannery) had asked Governor Norman to do what might be possible to prevent bullion brokers in London from providing gold coins to Frenchmen who were seeking means of exporting capital from the country. The influence of the Bank of England was used to discourage London brokers from such operations.

I was told by Cariguel that since the March 5

Communique of the French Government, indicating the move toward a free gold market in Paris, the London brokers had petitioned Norman to lift the restrictions I mentioned above.

END SECTION ONE.

WILSON.

RECEIVED
SEP 1 1951
CENTRAL RECORDS
SECTION 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100

EA:LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 342 of
March 11, 1937, from the American Embassy, Paris.

The Bank of France received a telephone call from the Bank of England yesterday on this point, and no objection to removal of the restrictions was voiced to Governor Norman by the Bank of France. In the future, therefore, it will be possible for London bullion brokers to ship gold coins to France for sale to individuals or firms which want to get them on the market in Paris.

Cariguel said as to a second point that there will be no control of the negotiation of gold in France between firms and individuals. As yet no provision has been made, however, for a private individual or firm to go to the Bank of France and use French bank notes to purchase a bar of gold. Foreign monetary authorities are the only ones who under today's practice can buy Bank of France gold. The Bank of France itself will attend to the matter if there is to be any export of its gold. Private operators could export without restrictions any gold as may be found on the Paris market outside of the Bank of France.

Re the report in my telegram No. 336 of March 10, 5 p.m., Cariguel confirmed the report to the effect that an important amount of sterling was acquired by him yesterday morning. This morning at 11 o'clock he had obtained a little sterling, but that yesterday forenoon it had been a one-way market, and such was not the case today.

END MESSAGE.

WILSON.

EA:LWW

LMS

GRAY

Paris

Dated March 11, 1937

Rec'd 4:15 p. m.

Secretary of State,
Washington.

343, March 11, 4 p. m.

FROM COCHRAN.

An official communique was issued this noon which announced that there will be published in the Journal Official tomorrow morning a decree establishing the terms of the national defense loan. The following is a summary in English of such details as were contained in the communique:

"Interest and capital will be paid at the choice of the holder, in French francs in France, or in Swiss francs at the Bank for International Settlements at all of the paying offices which will be indicated by it to the equivalent of the amount of the coupon or of the capital which will be specified in French francs, pounds, or in dollars. The securities will be reimbursed by drawing at lot or by re-purchase on the Bourse in sixty years on the basis of a constant annuity. The rate will be four and a half per cent; the price of issue ninety-eight francs. The amount of the first tranche will be limited to five billion francs.

LMS 2-No. 343, March 11, 4 p. m., from Paris.

francs. Subscription will be opened tomorrow March 12
and (TED SECTION ONE)

WILSON

SHS:WPL

LMS

GRAY

Paris

Dated March 11, 1937

Rec'd 4:52 p. m.

Secretary of State,
Washington.

343, March 11, 4 p. m. (SECTION TWO)
closed March 25 at the latest".

While there was nothing in the communique to indicate the basis for exchange relationship between the French franc and the dollar and pound, my market contact has heard that this will be 21.90 to the dollar and 106.93 to the pound.

Bank of France statement as of March 5 showed no gold loss but increase of 300,000,000 francs in advances to Treasury. Interest rate on national defense two-year bonds is today lowered from four and a half to four per cent. President Lebrun will speak over radio at eleven o'clock tonight in behalf of the loan.

French control has acquired important amount of sterling today with franc strengthening to 106.58 at 3:30 this afternoon. Rente market nervous and ^{levels} ~~La Plata~~ barely being held by tremendous purchases in behalf of Caisse des Depots. While there is, therefore, considerable
sterling

LMS 2-No. 343, March 11, 4 p. m., Sec. 2, from Paris.

sterling coming into the fund through repatriation or short covering it would appear that outstanding rentes are being liquidated heavily to provide funds for investment in the more attractive new issue. Market feels Government is paying too much for the loan. Understand Treasury hopes to be able to close books on first tranche upon examination tomorrow night

WILSON

SMS:PL

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 348
of March 11, 1937, from the American Embassy, Paris

This afternoon I had a talk by telephone with Governor Trip who was at Amsterdam. The Governor told me that since his return to the Netherlands from his visit at Basel, he had been approached by the French who wanted to appoint a paying agent in his country. Governor Trip knew about the decisions of Great Britain and the United States, and he declined also. He said that he understood the French Treasury then took up the matter with Swiss bankers. The latter in turn approached President Bachmann of the Swiss National Bank. President Bachmann gave his consent to the arrangement for the paying out of Swiss francs through the BIS as indicated in the communique mentioned above. The BIS, Trip said, had no reason to refuse the task devolving upon it, considering that approval had been obtained from the Swiss, because the BIS would make payment in the Swiss currency.

Today's issue of the HERALD TRIBUNE OF PARIS quotes criticism of the HERALD TRIBUNE OF NEW YORK against the stand regarding the French loan taken by the Treasury. As far as I am aware, this article has not been reproduced in French papers. They continue to play up the "tripartite" character of the loan, on the contrary.

END MESSAGE.

WILSON.

EA:LWW

MED

GRAY

PARIS

Dated March 11, 1937

Received 5:07 p.m.

Secretary of State

Washington

346, March 11, 7 p.m.

Embassy's telegram 334 of March 10, 4 p.m.

The Senate yesterday passed the Government's bill for the national defense loan by a vote of 258 against 1 with 46 abstentions, the one dissenting vote that of Senator Thibault (Republican Union).

The Senate Finance Committee before approving the bill amended it to limit the amount of the loan to a (*) of ten billion five hundred million francs of which nine billion five hundred million is to be expended for extraordinary military necessities and one billion for military expenditure appropriated in the ordinary budget. The bill, with this amendment, after passage by the Senate, was returned to the Chamber which after short discussion passed it by a vote of 474 against 39 with 85 abstentions, the dissenting votes being again composed chiefly of Marin's Republican Federation group.

The debate in the Senate was very brief. Senator Gardy (Democratic Left) in reporting to the Senate decision of the Finance Committee took the occasion to call

the

EDA - 2 - #346, March 11, 7 p.m. from Paris

the attention of the Government to the necessity of
a

END SECTION ONE.

WILSON

(*) Apparent omission

NPL:EDA

EDA

GRAY

266

PARIS

Dated March 11, 1937

Received 5:37 p.m.

Secretary of State

Washington

346, March 11, 7 p.m. (SECTION TWO)

continuity of action and stated that the Government on its side in its connection with the laboring masses "must persuade them that their security and their legitimate well being depend upon general prosperity and that nothing durable, nothing solid can be constructed outside of order and work".

Senator Desjardins (Republican social and national action) proposed an amendment practically the same as suggested of Marin in the Chamber of Deputies envisaging a control over the expenditure of the proceeds of the loan. This amendment was voted down.

Senator Joseph Caillaux (Democratic Left) President of the Finance Committee, in supporting the loan asked Blum what his program would be for the next year stating that the present loan was worth nothing unless it were the commencement of a general plan of action. He says that Blum must take a categorical attitude with regard to expenditures other than those required by national defense.

Senator

EDA - 2 - #346, March 11, 7 p.m. from Paris Section 2.

Senator Desjardins (Republican Left) said that continuity of action was necessary and asked what Blum would

WILSON

NPL:EDA

MED

GRAY

PARIS

Dated March 11, 1937

Received 5:24 p.m.

Secretary of State

Washington

346, March 11, 7 p.m. (SECTION THREE)

do tomorrow with regard to other urgent expenditures.

Blum in supporting the bill made no statement as to what his future policy would be, making no reply to the above questions and basing his defense of the bill solely on national rather than on political grounds.

In commenting on the Senate debate L'ECHO DE PARIS commends the Senate for limiting the amount of the loan but expresses regret that it was unable, just as the Chamber was, to get Blum to make any reassuring declarations concerning future policy.

Other Right papers make similar comment.

REPUBLIQUE congratulates the Senate for having placed the interest of the nation above partisan divisions.

LE PEUPLE, Jouhaux' organ states that "the Government must be supported at all costs" and asks whether the capitalists "would prefer the brutality of a Mussolini who seizes capital without explanation for his imperialistic policy".

POPULAIRE

EDA - 2 - #346, March 11, 7 p.m. from Paris Sect on 3.

POPULAIRE and HUMANITE score the Right groups
for voting against the bill.

END OF MESSAGE.

WILSON

WPL:EDA

RECEIVED
MAR 11 1934
THEATRICAL DEPARTMENT
Office of the Director
American Museum of Natural History

8:30 DOW JONES MORNING SUMMARY
 IN PARIS PRICE OF GOLD WAS FIXED AT
 24 431 FRANCS PER KILO WITH STERLING 106 80
 AND THE DOLLAR 21 84 MAR 11 1937

8:30 FRENCH DEFENSE LOAN
 PARIS -UP- A FIRST INSTALMENT OF 5 000 000
 000 FRANCS OF THE NATIONAL DEFENSE LOAN WILL
 BE ISSUED TOMORROW AT 98 BEARING 4 1-2 PC IN-
 TEREST AND REPAYABLE IN 60 YEARS IT WAS
 ANNOUNCED TODAY - THE LIST WILL BE CLOSED MARCH
 25
 -0- MAR 11 1937

8:40 IN REGARD TO THE NATIONAL DEFENSE LOAN
 THE FRENCH MINISTRY OF FINANCE ANNOUNCES THAT
 A FIXED RATIO WILL BE ESTABLISHED LATER
BETWEEN THE FRENCH FRANC AND STERLING AND THE
DOLLAR - HOWEVER THE RATIO BETWEEN THE FRENCH
FRANC AND THE SWISS FRANC AS WELL AS BETWEEN
THE SWISS FRANC AND STERLING AND THE DOLLAR
 WILL BE VARIABLE
 - - - MAR 11 1937

9:05 PARIS BOURSE SHOWED NO REACTION TO THE
 DEFENSE LOAN- RENTES WERE STEADY AND DOMESTIC
 STOCKS WEAK- TRADERS CONSIDER THE LOAN RATE
 RATHER HIGH
 MAR 11 1937

Press Conf.
 MORGENTHAU SAYS TREASURY NOTES CONVERSION
 OVER 85 PC COMPLETE- SAYS THAT NO IRREGULAR
 MOVEMENT OF CAPITAL OUT OF U S APPARENT

WASHN-

MAR 11 1937

10-54

MAR 11 1937

ADD MORGENTHAU

10-57

WASHN- SECY MORGENTHAU SAID THIS MORNING
 THAT THE TREASURY-S CURRENT NOTE CONVERSION
 WAS -ENTIRELY SUCCESSFUL- AND AT THE CLOSE OF
 BUSINESS LAST NIGHT WAS MORE THAN 85 PC
 COMPLETE

ALTHOUGH THE SUBSCRIPTION BOOKS CLOSED
 LAST NIGHT FINAL FIGURES ON THE CONVERSION
 OPERATION WILL NOT BE AVAILABLE UNTIL THE END
 OF THE WEEK BECAUSE OF SUBSCRIPTIONS MAILED
 LATE YESTERDAY SECY MORGENTHAU EXPLAINED
 ASKED ABOUT POSSIBLE AMERICAN INVESTMENT
 IN THE NEW FRENCH LOAN SECY MORGENTHAU SAID
 THAT THERE WAS NO SIGN TODAY OF AMERICAN FUNDS
 GOING ABROAD- NO AMERICAN INSTITUTION HAS
 ASKED THE TREASURY ABOUT THE PROPRIETY OF
 INVESTING IN THE FRENCH LOAN THE SECRETARY SAID

*French
Loan*

ADD MORGENTHAU

11.05
 WASHN - -THERE IS NO IRREGULAR MOVEMENT
 IN OR OUT- SECY MORGENTHAU REMARKED - -THE
 FACT THAT AT THE END OF LAST WEEK UNDER THE
 TRI-PARTITE AGREEMENT THERE WERE LARGE MOVE-
 MENTS OF GOLD TO KEEP THE CURRENCY FROM
 FLUCTUATING I DO NOT CALL ABNORMAL - I JUST
 CALL IT A HEAVY DAY-S WORK-

MAR 11 1937

THE INTERDEPARTMENTAL STUDY OF THE
 INTERNATIONAL -HOT MONEY- QUESTION HAS NOT YET
 ARRIVED AT -A PRACTICAL ANSWER THAT I AM WILLING
 TO ACCEPT - ACCORDING TO SECY MORGENTHAU - THE
 TREASURY -IS WORKING VERY HARD- ON THE WAGNER
 HOUSING BILL STUDYING HOW TO RAISE THE FUNDS
 WHERE THE PROGRAM FITS INTO THE BUDGET AND THE
 SIZE OF THE PROPOSED HOUSING SUBSIDIES SECY
 MORGENTHAU ASSERTED ADDING THAT HE FAVORED LOW
 COST HOUSING FINANCED IN A SOUND MANNER
 -0-

ADD FRENCH NATIONAL DEFENSE LOAN

PARIS - THE ISSUE WILL BE REDEEMABLE WITH-
 IN SIXTY YEARS BY ANNUAL DRAWINGS OR PUR-
 CHASES ON THE BOURSE THROUGH A FIXED ANNUITY-
 INTEREST COUPONS AND CAPITAL WILL BE PAYABLE
 IN FRENCH OR SWISS FRANCS BY THE BANK FOR
 INTERNATIONAL SETTLEMENTS AT BASLE AND AT
 SUCH PLACES AS DESIGNATED BY THE BANK -BANK
 OF FRANCE- AND WILL BE STIPULATED IN FRENCH
 FRANCS STERLING AND DOLLARS

MAR 11 1937

10.05

-0-

ADD FRENCH DEFENSE LOAN

PARIS - IT IS BELIEVED THAT THE FRANC-
 STERLING-DOLLAR RATIO WILL BE FIXED FOR THE
 LOAN COUPONS AT THE AVERAGE EXCHANGE RATES
 FOR THE PAST THREE DAYS

STRONG CRITICISM IS HEARD IN FINANCIAL
 CIRCLES AGAINST THE 4 1-2 PC RATE SINCE IT
 THREATENS TO BLOCK A GENERAL CONSOLIDATION
 OF GOVERNMENT DEBT AT LOWER RATE OF INTEREST
 FOR MANY YEARS

IT IS UNDERSTOOD THAT THE SWISS FRANC WAS
 ADOPTED AS THE ONLY ALTERNATIVE CURRENCY FOR
 PAYMENT OF COUPONS AND CAPITAL BECAUSE
 OBJECTIONS WERE RAISED IN NEW YORK LONDON
 AND AMSTERDAM TO PAYMENT IN THEIR CURRENCIES

-0-

MAR 11 1937

12.77

FRENCH GOLD PRICE

MAR 11 1937

PARIS - THE PRICE OF GOLD IN FRANCE HAS BEEN CHANGED TO 24 386 FRANCS PER KILO COMPARED WITH AN EARLIER PRICE TODAY OF 24 431

THE FRENCH CONTROL CONTINUED TO BUY STERLING AND DOLLARS WHICH WERE OFFERED FREELY IN THE OFFICIAL SESSION OF THE FOREIGN EXCHANGE MARKET PROBABLY DUE TO PROFIT-TAKING ON SHORT SALES OF FRANCS

THE REFERENCE MADE TO THE PRESS BY FINANCE MINISTER AURIOL OF GOLD COMING INTO FRANCE PRESUMABLY ALLUDED TO THE RECENT ACQUISITIONS OF FOREIGN EXCHANGE BY THE FRENCH CONTROL

-0-

- 1235
MAR 11 1937

FOREIGN EXCHANGES WEAK

GENERAL WEAKNESS HAS DEVELOPED IN THE LEADING FOREIGN EXCHANGE RATES IN THE LOCAL MARKET DUE TO A GENERAL EUROPEAN DEMAND FOR DOLLARS WHICH APPARENTLY HAS NOT BEEN OFFSET BY OFFICIAL CONTROL OPERATIONS

MAR 11 1937

ADD FOREIGN EXCHANGE WEAK

STERLING HAS BEEN ON THE OFFERED SIDE AT ABOUT 4 88 5-16 OFF 1-4 CENT - AT 4 58 1-4 FRENCH FRANCS ARE 1 1-4 POINTS HIGHER THAN LAST NIGHT-S CLOSE BUT HAVE LOST SOME GROUND FROM EARLIER HIGHS IN THE DAY

WEAKNESS IS PRONOUNCED IN DUTCH GUILDERS WHICH ARE CURRENTLY QUOTED AT ABOUT 54 64 CENTS OFF 7 POINTS - CONSIDERABLE SELLING FROM AMSTERDAM HAS BEEN REPORTED

-0-

MAR 11 1937

1146 1244

ADD FOREIGN EXCHANGES WEAK

FOREIGN EXCHANGE QUARTERS REPORT MUCH OF AMSTERDAM-S OFFERINGS OF GUILDERS AND LONDON-S OFFERINGS OF STERLING APPARENTLY HAS BEEN AGAINST PURCHASES OF AMERICANS SECURITIES - RECENT DEMAND FOR STERLING FROM COMMODITY QUARTERS SUCH AS RUBBER AND TIN HAS DRIED UP LOCAL EXCHANGE MARKET IS INCLINED TO DISCOUNT THE REPORTS FROM PARIS TELLING OF THE REPATRIATION OF FRENCH BALANCES FROM ABROAD - THERE IS LITTLE INDICATION OF IMPORTANT WITHDRAWALS OF FRENCH FUNDS FROM NEW YORK

THE LOCAL MARKET SUSPECTS THAT MUCH OF THE STEADINESS IN FRANC EXCHANGE HERE AND ABROAD TODAY HAS BEEN THE RESULT OF OFFICIAL WINDOW DRESSING/OPERATING IN PREPARATION FOR THE FORTHCOMING 10 500 000 000 FRANC DEFENSE LOAN - EXCHANGE TRADERS SAY THERE IS NOT SUFFICIENT VOLUME IN THE FRANC MARKET TO WARRANT BELIEF THAT IMPORTANT REPATRIATION IS DEVELOPING

-0-

3:30

LEBRUN ADDRESS ON LOAN

PARIS-UP- PRESIDENT ALBERT LEBRUN CALLED ON THE FRENCH NATION IN A RADIO ADDRESS TONIGHT TO MAKE EVERY SACRIFICE NECESSARY TO PUT FRANCE IN THE FORE-FRONT OF THE INTERNATIONAL RE-ARMAMENT RACE NOW IN PROGRESS

LEBRUN POINTED OUT THAT THE GOVERNMENT HAS RESOLVED TO STRIVE FOR A BALANCED BUDGET - HE APPEALED FOR A TRUCE IN ALL POLITICAL QUARRELS IN A TIME OF EMERGENCY

MAR 11 1937

-0-

Bonnet

FRENCH AMBASSADOR GEORGES BONNET TONIGHT CAPPED A WEEK OF RUMORS AND OFFICIAL EXCHANGES OVER THE NEW FRENCH DEFENSE LOAN WITH A DECLARATION OF CONFIDENCE THAT HIS PEOPLE WILL MEET THEIR FINANCIAL TROUBLES WITH THEIR OWN RESOURCES.

THE STATEMENT WAS HIS FIRST SINCE A MOVE BY FRENCH OFFICIALS TO INTEREST AMERICAN INVESTORS IN THE PROPOSED \$1,000,000,000 LOAN BY CONSIDERING APPOINTMENT OF A PAYING AGENT IN NEW YORK.

3/11--CS80.0

French Situation

PARIS.--PRESIDENT ALBERT LE BRUN CALLED ON THE NATION IN A RADIO ADDRESS TONIGHT TO MAKE EVERY SACRIFICE NECESSARY TO PUT FRANCE IN THE FORE-FRONT OF THE INTERNATIONAL REARMAMENT RACE NOW IN PROGRESS
3/11--R315P

ADD DEFENSE LOAN, PARIS

LE BRUN SPOKE IN BEHALF OF THE FIRST INSTALLMENT OF A NATIONAL DEFENSE LOAN OF 5,000,000,000 FRANCS (\$228,500,000) TO BE ISSUED TOMORROW AT 98, BEARING 4-1/2 PER CENT AND REIMBURSABLE IN 60 YEARS.

"I ASK YOU TO SUBSCRIBE WITHIN PROPORTION TO YOUR MEANS TO THE NATIONAL DEFENSE LOAN," THE PREMIER SAID.

RECALLING THE SOLIDARITY OF FRENCHMEN IN TIMES OF NATIONAL CRISIS, HE CONTINUED:

"ABSTENTION WOULD BE HARMFUL IN THE PRESENT CIRCUMSTANCES...THE NATIONS ABOUT US ARE COMPETING IN SACRIFICES AND EFFORTS TO RE-ARM. SHOULD WE REMAIN INDIFFERENT?

"I KNOW WHAT YOU ALL THINK ON THIS SUBJECT. WE MUST THEREFORE REINFORCE OUR LAND, AIR AND SEA ARMAMENTS. A PROGRAM HAS BEEN ESTABLISHED AND IT IS BEING EXECUTED METHODICALLY."

LEBRUN POINTED OUT THAT THE GOVERNMENT HAS RESOLVED TO STRIVE FOR A BALANCED BUDGET. HE ADDED THAT LONG-TERM AMORTIZATION OF THE LOAN AND APPEALED FOR A TRUCE IN ALL POLITICAL QUARRELS IN A TIME OF EMERGENCY.

3/11--R333P 4ET

GROUP MEETING

March 11, 1937
9:30 a.m.

280

Present: Mr. Magill
Mr. Gaston
Mr. Lochhead
Mr. Taylor
Mr. Thompson
Mr. Haas
Mr. Bell

H.M.Jr: I thought you (Haas) were going to Harvard last night.

Haas: No, next week.

H.M.Jr: Have you (Lochhead) figured those rates?

Lochhead: Yes. It worked out for francs 456.62, and if you use the same cross rate for the sterling figure, it would make 488.26.

H.M.Jr: 4

Lochhead: 488.26.

H.M.Jr: And they're going to do business on that for 60 years?

Lochhead: I think we better wait and get the definite figures before we pass any comment.

H.M.Jr: Now get this, Wayne. Now when you figure this thing, don't pull a Bonnet on me.

(Hearty laughter.)

This is so silly.

All right, Prof. Magill.

Magill: I don't think I have anything particular. I'd be glad to spend an hour with you one of these days discussing this Bureau administration business, because I've been spending quite a lot of time on it here.

H.M.Jr: Well, from reading your memorandum, it really still is in the - how shall I put it? - formative period, isn't it.

- 2 -

Magill: Well, it has been; I don't know that it is any more.

H.M.Jr: Well, I mean are you ready to sit down so that you want to say shall we or shan't we?

Magill: It will certainly be at that point not later than tomorrow, I should say.

H.M.Jr: All right.

Magill: It would be quite all right to make it the first of the week.

H.M.Jr: I won't be here the first of the week. Now, if you want to - you won't be here tomorrow, will you?

Magill: Not in the afternoon.

H.M.Jr: Well, if Taylor is willing to give way to you this afternoon on Cuba, I will do you this afternoon and do Taylor tomorrow.

Magill: I'll tell you, couldn't we do this? I would like ten minutes with you to tell you what is now proposed.

H.M.Jr: Well, I think you can stay right after this meeting. How's that?

Magill: Fine.

H.M.Jr: All right?

Magill: O.K., perfect.

H.M.Jr: Herbert?

Gaston: That scheme of Steve Early's and "Red" Liggett's about the conference with the business paper editors bothers me quite a little. I think it is a sour scheme.

(Opper comes in.)

H.M.Jr: Are you Acting Attorney General?

Opper: Well, in a manner of speaking.

- 3 -

H.M.Jr: O.K.

Magill: That's all.

Gaston: I suppose we better work out some sort of a meeting with two or three of the people around here, just watch our step.

H.M.Jr: Excuse me a minute. Are you (Opper) prepared on this - all this stuff that went on last night about Igoe and Oliphant and Harold Graves? Do you know anything about it?

Opper: What was the first name?

H.M.Jr: Igoe, in Chicago.

Opper: No.

H.M.Jr: Well, do you mind going out and getting Harold Graves to tell it to you? Then come back. Because if you boys expect me to carry the ball from here on Do you mind getting in touch with Harold Graves and let him pump it into you and come back.

(Opper leaves.)

Gaston: Well, I guess we'll just have to do the best we can.

H.M.Jr: Well, I'm not going to have anybody from the Treasury go.

Gaston: You won't have anybody go to their meeting at all?

H.M.Jr: No.

Gaston: What they are asking is that three or four, half a dozen people come over here and talk to two or three - about this and that to Treasury officials.

H.M.Jr: Now listen - tell him (Magill) about it.

Gaston: I think I already have told you something about it.

H.M.Jr: Nuts! What?

- 4 -

Magill: I don't have it in mind.

Gaston: Well, Liggett over here at the Executive Council has worked out a plan with some business paper editors, an association of business paper editors, whereby they hold monthly meetings and conferences with Government officials, and part of the scheme is the carrying on of polls among their leaders to ascertain business sentiment and promote contacts between the Government and business. And they would like to come over here at their next meeting, some of them, next Thursday morning, and they would like to talk to us about the - preferably about the undistributed profits tax.

Magill: (Shakes head negatively.)

Gaston: And they would also like to have some representative from the Treasury attend their luncheon meeting at 1:00.

H.M.Jr: Now listen, the President of the United States told me he didn't want anybody from the Treasury talking before the United States Chamber of Commerce, he didn't want anybody talking before the Manufacturers' Association; why should we do this? I'm not going to do it, that's all, and you can tell them so. I don't know - why should we? I'm not going to have anybody talk on this surplus thing.

Gaston: Well, it gets down to a question whether we want to let three or four people come over here on Thursday morning to meet two or three people in the Treasury Department and ask them questions about this and that.

H.M.Jr: We can't keep them from coming over here.

Gaston: But we are not going to talk the undistributed profits tax here.

H.M.Jr: Well, anybody can come over to the Treasury and see you. You always receive newspaper men, don't you?

Gaston: Yes, but this of course is a quite different thing. I don't like it at all.

- 5 -

H.M.Jr: I'm not going to expose Magill to it when I'm not here myself. Why don't you put it on the ground that, if you want to

Gaston: It would be inconvenient to meet this time

H.M.Jr: because I am away.

Gaston: Because you are away.

H.M.Jr: Yes, yes.

Gaston: Yes.

H.M.Jr: And Bell's away.

Magill: I'm glad you said what you did because we are under a lot of pressure of that particular kind.

H.M.Jr: They want to know what we have been doing on it. Why should we tell them what we have in mind? I want Magill to tell me himself first what he's got in his mind.

Gaston: Well, certainly nobody here ought to tell them what we've got in our minds.

Magill: When do you want to know?
(Hearty laughter.)

H.M.Jr: Magill himself!

Magill: The old Sphinx.
Well, we had the same - Dun and Bradstreet are in with a questionnaire that sounds a good deal like Herbert's, and what they want in substance is official approval of this questionnaire, which they want to send out to business men about the undistributed profits tax. Of course, we're not going to give it to them.

H.M.Jr: After all, I've got to keep good faith with Pat Harrison and Bob Doughton. They have kept faith with me. And you can tell this to Mr. Steve Early. I have kept faith with those two gentlemen, and Pat Harrison and Bob Doughton - before we have any

such meetings, I would have to first get permission from them. And I have a bargain with the President of the United States, Pat Harrison, and Doughton that we say nothing to anybody, which is true for once.

- Gaston: What they'll come back at you - they don't have to discuss that tax; they will just
- H.M.Jr: Well, you handled a \$100,000 salesman for William Randolph Hearst; you can handle this.
- Gaston: Well, I'd like to nominate somebody else besides me to go to their luncheon.
- Taylor: Is the food any good?
- Gaston: I'm not interested - too many drawbacks.
- H.M.Jr: Well, you can say that I'm away and until I come back
- Gaston: Did you read some of that transcript - those passages that I marked in that transcript I sent in to you?
- H.M.Jr: What transcript? Well, I didn't see any mail yesterday.
- Gaston: Well, I sent a stenographic record of their last meeting.
- Mrs. Klotz: He hasn't seen it.
- Gaston: Some of Jesse Jones' remarks.
- H.M.Jr: Anything else, Herbert?
- Gaston: No, that's all. I had a letter from Upham. His mother isn't doing so very well.
- H.M.Jr: Well, I'm sorry.
- George?
- Haas: I sent you a report on this luncheon meeting yesterday.
- H.M.Jr: It will come this morning. How was the luncheon?

- 7 -

Taylor: Very interesting.

Bell: You know what we decided on bills?

H.M.Jr: No, what?

Bell: Same as last week.

H.M.Jr: That's 50 million June bills by credit?

Bell: By credit.

H.M.Jr: And the others?

Bell: And the others cash.

H.M.Jr: Why was it an interesting luncheon?

Taylor: The question of gold came up after you left.

H.M.Jr: And?

Taylor: Well, serious discussion of the possibility of feeding in a little more gold into the credit system.

Haas: Increasing excess reserves.

H.M.Jr: No. No.

Taylor: And some one reluctantly said, "Why, yes, we have always been willing to cooperate like that."

H.M.Jr: Reverse the sterilizing of gold to put it back into their - now they want us to reverse it and release gold?

Haas: Things a little tight, they thought.

Bell: They hung it, however, on the lack of knowledge on their part that we weren't going to make this proposal retroactive and pick up the gold in the General Fund or take the gold that the Stabilization Fund has already purchased.

H.M.Jr: How soon do they want me to do that?

Lochhead: They would accomplish the same purpose by increasing their portfolio of Government bonds.

- 8 -

H.M.Jr: But listen, I'd love to release a little gold.

Haas: It saves us expense.

H.M.Jr: That would be grand.

Haas: I think it would help the bond market.

Taylor: We thought you would be interested in it.

Lochhead: There is a hundred million of silver certificates you can deposit in the Federal any time; that will loosen things up.

Taylor: Let them buy bonds.

H.M.Jr: Well, any way - is that in your (Haas) note?

Haas: Yes, sir. I'll send you another memorandum discussing some of the elements of that proposal.

H.M.Jr: All right.

Archie, anything?

Lochhead: Nothing new.

H.M.Jr: Wayne?

Taylor: Anything happen on neutrality?

H.M.Jr: Oh, I sent it over to the Secretary of State and he hadn't even looked at it; he hadn't even looked at it, but he said he would. So the next move is from 'him.

Dan?

Bell: No.

H.M.Jr: Hopkins at eleven?

Bell: Yes. I'm expecting an appointment at the White House, but I don't

H.M.Jr: Well, if you are, that's just too bad. If you are, you'll just have to go over there.

Bell: It will probably be late.

- 9 -

H.M.Jr: Anything else, Dan?

Bell: No.

Thompson: Everything is quiet in my shop.

H.M.Jr: Have you checked up

Thompson: I am having a check made in every office. I haven't had a report of a single case yet.

H.M.Jr: Well now, in the future - Mac has this staff meeting with you fellows, doesn't he? Well, ask those fellows in the future when they come in once a week to make a report to you how old is the oldest letter unanswered. We used to do that over in Farm Credit. Now once a week Mac should get a report on what is the longest date of any unanswered mail from those people.

Thompson: We get weekly reports from each office

H.M.Jr: On Congressional mail?

Thompson: Didn't seem to work out.

H.M.Jr: No.

Wayne, I've got over at the President's bedside a telegram asking - for him to sign on this Mexican gold business. Do you know about it? If he signs it, I'm going to send for the Mexican Ambassador and show him the kind of service we can give him.

Taylor: (Nods yes.)

H.M.Jr: All right.

①
 Trimmity
 Super of accs.
 Internal
 supposed of
 to have rewritten
 Carley Income
 Tax. They
 are in our
 hand writing
 Trimmity Police Comm
 vs Boston.

②
 Mary Klonelly
 of Boston
 as she was
 making large
 deposits with
 them at Habfan
 This girl is
 Carley's daughter

③
 Dan. Hanlon
 In charge
 of Fraud Inventory
 Put in By Carley

March 11,
 1937

Bk of Nov Scotia
 asked Allan Forbes
 Pres of States Street
 Trust Co. Boston
 who was ~~the~~

Brokers: Somy Swartselter & Company
Address: 161 Devonshire Street, Boston.
Name account held in: J.M.C.

J.M.C. Reports in "T" handwriting (replacing
others removed by him) cover reports for years
1928, 1929 and 1930.

Brokers: Wrenn Bros. and Co.

Address: 30 Federal Street, Boston.

Name account held in: Walter O'Brien

Approximate amount withdrawn: \$20,000 to \$25,000

When account was in force: 1933, 1934, 1935 and
perhaps a month or two in 1936.

Brokers: Wrenn Bros. and Co.

Address: 30 Federal Street, Boston

Name account held in: J. Walter Quinn

Approximate amount withdrawn: \$50,000 to \$75,000

Date withdrawn: About one year ago, latter part of 1935.

THE WHITE HOUSE
WASHINGTON

March 11, 1937.

MEMORANDUM FOR SECRETARY MORGENTHAU:

For his confidential information
and return.

F.D.R.

Confidential
R. Maguire
Read and
Speak to me

UNITED STATES STEEL CORPORATION
71 BROADWAY
NEW YORK

OFFICE OF THE CHAIRMAN

January 19 1937

Memorandum for
The President:

In our recent talk, mentioning the effect of the undistributed profits tax law, I suggested sending you a memorandum to be prepared by Mr. George O. May of the firm of Price, Waterhouse & Company. It is enclosed herewith. I suggested that it be brief and cover only the salient points.

M. C. T.

UNITED STATES STEEL CORPORATION
71 BROADWAY
NEW YORK

OFFICE OF THE CHAIRMAN

JANUARY 19 1957

Memorandum for
The President:

In our recent talk, mentioning the effect of the undistributed profits tax law, I suggested sending you a memorandum to be prepared by Mr. George O. May of the firm of Price, Waterhouse & Company. It is enclosed herewith. I suggested that it be brief and cover only the salient points.

M. C. T.

56 PINE STREET
NEW YORK

January 19, 1937.

Myron C. Taylor, Esq.,
71 Broadway,
New York, N. Y.

Dear Mr. Taylor:

I enclose two copies of a memorandum which I have prepared in regard to the proposal to give relief from undistributed profits tax to profits expended in new construction. I hope it will be helpful to you.

Yours very truly,

Wm. O'Neal

Enclosure

NEW CONSTRUCTION and the UNDISTRIBUTED PROFITS TAX

(1) In a statement which appeared in the press on December 13, Senator Harrison stated that consideration would be given to a proposal to grant an exemption from the undistributed profits tax in respect of profits reinvested in new facilities.

(2) It seems to me that such an exemption is a logical development of the general theory on which the Administration's plans to bring us out of the depression have been based; that it tends towards more even justice in taxation as between different types of corporations, and that it would be expedient from the standpoint of the long-time interests of the national economy.

(3) The Administration has proceeded on the basis that only direct Government expenditures on a liberal scale could lift the country out of the bottom of the depression. It presumably contemplates ultimately that prosperity will be maintained mainly by corporate and other private spending. The difficult problem is that of transition. It seems to me that the natural progression is from Government expenditure, financed wholly by taxes, to corporate or private expenditure receiving Government encouragement, and, finally, to such expenditure requiring no aid or encouragement from Government.

(4) In his budget message the President recognized the very close connection between the amount expended for labor by private corporations and the amount needed to be expended in relief. This point was emphasized by Keynes in the comment: "We are using our savings to pay for unemployment instead of using them to equip the country." It is generally estimated that 75% to 80% of the expendi-

ture for new additions goes to labor (see J. M. Clark), and clearly such expenditures produce more secondary expenditures than the payment of taxes which are disbursed in unemployment relief.

(5) Questions have been raised whether reinvestment by corporations is the most efficient manner of adding to the capital equipment of the nation. Personally, despite instances to the contrary, I am inclined to think it is. More important at the moment, however, is the consideration of time. Such reinvestment obviously operates more quickly (and more surely) than the distribution of profits to the rentier class and the reinvestment by them, so at this stage of our recovery it seems to be particularly desirable.

(6) In the long run, the increase in national income closely parallels the increase in the capital equipment of the industries of the country. This point is clearly and convincingly developed by Carl Snyder, until recently statistician of the Federal Reserve Bank of New York, in the American Economic Review of June, 1933

(7) Mr. Snyder's article contains the most striking single statistical figure that has come to my notice in a great while, in which he states (at page 810) that the national income derived in this country from the motor industry, including the associate trades such as automobile supplies of various kinds, garage charges, etc., was in 1928-29 greater than the entire national income of France, and that it was probably not far below that income even in 1936. This comparison does not take account of the great expenditure on highways, which clearly in the main were both justified and financed by the automobile.

(8) Presumably the exception would be measured by the excess expenditures on new facilities (10% including purchases of existing

"The placing of profits back into business is much the most economical application of new capital. It ensures that capital will be applied only where management has shown its capacity to use capital effectively, and only where the possibility of using new capital to advantage has been demonstrated. Savings applied to establishing new businesses through new issues are frequently lost, and give no additional employment, either because the project to be financed proves unsound or the management unequal to its task; profits applied by the management that has made them to the expansion of the project or type of project by which it has made them gives the best possible assurance against such loss. Anything, therefore, that encourages the application of profits to further expansion, instead of their distribution in dividends, anything that makes possible the application of larger amounts in this way, applies a stimulus to industry automatically at the points where the stimulus must have most effect. Both the industries that are best able to expand, and the firms in each industry that are best able to expand, will be encouraged and enabled to expand."

From Henry Clay, The Post-War Unemployment Problem (1949),
p. 139.

... when a company saves by retaining part of its profit, the operation is smooth and simple. In the case of a progressive business the flow of capital is just in the place where it is required; it is at the growing-point of industry, enabling new needs and opportunities to be met without delay as and when they arise. This is true of the new enterprising business, which may as yet be making only small profits, as well as of the established company whose ability to save large sums for development year by year has given proof of efficiency and power of continued expansion."

From the Report of the Colwyn Committee on National Debt and Taxation (1927), Sec. 400 — "The quality of company savings," p. 148 f.

plants) over the unexpended depreciation and depletion reserves of the year. Such an allowance would, I believe, make taxation as a whole more just.

(9) Under the stress of the depression we have been compelled to tax profits without giving equivalent relief in respect of losses; and it must always be remembered that this is necessarily done on the basis of allocations of profits and losses so years which are, at best, approximate and conventional. This has inevitably resulted in inequality of taxation as between different classes of industries. Some of our industries show relatively stable profits; others show widely fluctuating results, from large profits in one year to large losses in another. In general, the more stable industries tend to be those whose material and labor costs and capital investment are relatively low, including those whose business is largely dependent on advertising. Companies which have a large capital investment are naturally subject to wider fluctuations, because when demand falls far short of supply each producer is willing to sell at a price which will cover his immediate costs of production and leave some contribution towards depreciation and overhead expense even though it will not fully cover those charges. Relief in the form suggested would be some offset to the disadvantage to the corporation having large capital investment under the existent scheme.

(10) Computation of the relief on the basis of the excess of any outlays over unexpended depreciation and depletion reserves would also tend to equalize taxation as between companies of this type and the purely extractive industries, which are particularly favorably situated from the standpoint of both the ordinary income

tax and the undistributed profits tax by reason of allowances for depletion for tax purposes in excess of those which they are required to make in determining the amount legally available for dividends.

(11) The views expressed herein find, I believe, ample support in economic authorities such as Snyder and Clark in our country, and Clay (economic adviser of the Bank of England) and Keynes -- to choose two men of opposing schools of thought -- in England. This is indicated by subjoined quotations from these authors.

(12) It has been argued that corporations could retain profits and use them for extension, and at the same time avoid the tax, by issuing some kind of stock which would not be a stock dividend. This method is not, however, as generally available as is sometimes suggested -- particularly where corporations have preferred stock outstanding and can only issue a junior stock closely resembling its existing common stock. The status for tax purposes of dividends paid in such stock is far from clear. Naturally, corporations are unwilling to contemplate the issue of a new and intrinsically undesirable form of capital stock solely for the purpose of avoiding the tax, with the possibility that they may later find that it is not effective for that purpose and that they will suffer both the disadvantages of having to pay the tax and having the undesirable stock outstanding. Moreover, in the case of companies having securities which are not quoted on any market there is often no way in which the stockholder can use the stock so issued to provide the money wherewith to pay the tax which will be due from him if the dividend is held not to be a stock dividend. No doubt it is due to these and similar considerations that resort was had to this procedure in 1936 on such a limited scale.

George O. May
George O. May

New York, N. Y.
January 19, 1937.

"It is well known that in the United States the production of petroleum and its various products -- oil, gasoline, and the like -- has become one of the four or five greatest industries of the nation. This, of course, is due to the prodigious growth in our country of motor-car manufacture. How enormous these two industries have become in the aggregate is revealed by a comparison which I have made between the total expenditure on motor cars in the United States, including new cars, repairs, garage work, oil, gasoline, garage charges, interest and all, and the entire national income of France. The total expenditure on motor cars in the United States is the larger of the two. This was certainly true in 1928-29, and probably not far from the fact even now."

"The great bulk of new capital appears to be derived from industry itself. Even each individual line of industry seems, as a rule, to provide its own capital requirements. This is clearly indicated from the elaborate data available in the United States as to the dividend and interest payments of the corporations, and most notably the actual "savings" of the corporations themselves. This information is supplied by the data compiled by the Bureau of Internal Revenue, as to the distribution of profits and surplus realized by corporations."

From Carl Snyder, "The Capital Supply and National Well-being," in The American Economic Review, Vol. XXVI (June, 1936), pp. 209 f.; 216.

"In [the] realm of common sense, if more is spent on one thing, there is less to spend on something else; and if more is to be spent on capital goods, more must be saved and less spent for consumption. But quantitative studies show us that we reach our largest consumption at the same time when we are also making the largest investments in tangible capital goods, and they strongly suggest that, by spending more for one thing, the economy as a whole may have more left to spend on other things and not less, at least in the short run. It is on this hypothesis that the government has been attempting to stimulate business by a tremendous program of public works."

From John Maurice Clark, Preface to Social Economics (1936), p. 380.

This point is developed at greater length in Chapter IX, "Cumulative Effects of Public Expenditures," of Economics of Public Works, U. S. Government Printing Office (1935).

IGOE - YELLOWLEY

March 11, 1937

HM, Jr telephoned Cummings complaining of Igoe's activities in investigating Yellowley and his office in Chicago and suggesting Brian McMahon, from Justice Department, work directly with Helvering.

March 11, 1937

HM, Jr's telephone conversation with Helvering that Cummings will send a representative to Helvering's office for conference and suggesting Graves be present.

March 11, 1937

Helvering telephoned Secretary, but have heard nothing from Attorney General. HM, Jr suggested he call Attorney General Back at about 1 o'clock.

March 11, 1937

Helvering telephoned Secretary that Attorney General said McMahon was in Detroit and Keenan could not be reached for a little while, but latter will go to Helvering's office immediately after lunch. HM, Jr suggested sending someone from Treasury on four o'clock train to Chicago to advise Yellowley.

March 11, 1937

Keenan telephoned HM, Jr. Keenan reported he had telephoned Igoe and instructed him to send full report to Attorney General to be referred to HM, Jr., and to suspend any further activities. HM, Jr suggested Igoe be in Washington on Monday. Keenan suggested it be Wednesday to give him opportunity to confer with Oliphant who will be out of town until Monday.

March 11, 1937

HM, Jr telephoned Helvering and told him of his conversation with Keenan.

March 11, 1937

HM, Jr telephoned Yellowley in Chicago and told him he, HM, Jr., was back of him; that two Treasury men were coming out to help him.

March 12, 1937

HM, Jr. telephoned to Yellowley to inquire about the situation. Yellowley reported "rotten article" in Chicago Herald Examiner that Capone gang as busy as in prohibition era and copy of the article already mailed.

March 13, 1937

HM, Jr's letter to Attorney General inclosing clippings from Chicago newspapers. (Copies attached.)

March 19, 1937

Commissioner Helvering's letter to Attorney General inclosing additional clippings from Chicago papers. (Copies attached.)

March 19, 1937

Oliphant's telephone conversation with Secretary. Oliphant on his way to Senate Restaurant for luncheon with Igoe, Keenan and Helvering.

March 19, 1937

Oliphant's memo for his own files reporting on luncheon conference today. Igoe will prepare and send to Justice a detailed statement of Treasury personnel and operation in Chicago with which he is dissatisfied.

April 12, 1937

Draft of letter (not sent) to Attorney General stating Igoe's written statement not received.

April 27, 1937

HM, Jr's letter to Attorney General returning letters from Igoe to Keenan containing criticisms against certain officers of the Treasury and memo of April 26 by responsible officers of the Treasury commenting on Igoe's charges.

April 29, 1937

UP ticker report that Yellowley had been cited for contempt of Court.

April 29, 1937

Oliphant and HM, Jr's telephone conversation about charges

-3-

charges filed against Yellowley. H^M, Jr suggested someone be sent to Chicago to assist him.

* See May 5 below

May 10, 1937

Meeting in Secretary's office to discuss letter from Igoe to Keenan charging two Treasury officials had disclosed certain tax information.

May 11, 1937

Oliphant's memo to Secretary making recommendations in connection with Yellowley's contempt case.

May 27, 1937

Oliphant's conversation with Keenan in which latter reported that action on contempt charges against Yellowley has been indefinitely postponed.

* *

May 5, 1937

Igoe's letter to Keenan of May 5, 1937. (This is referred to above under date of May 10, 1937)

March 12, 1937
9:40 a.m.

H.M.Jr: Hello?

Operator: Mr. Burgess.

H.M.Jr: Hello?

Burgess: Hello there.

H.M.Jr: Good morning.

B: How are you this morning?

H.M.Jr: Oh pretty well.

B: That's good.

H.M.Jr: We've been talking things over here, and we think that beginning today that Federal Reserve and ourselves should go fifty-fifty on any purchases.

B: All right - that's all right by me.

H.M.Jr: All right.

B: I'll get - just ring Marriner but I think that's all right with him.

H.M.Jr: I'm talking about bonds you know.

B: Yes, that's right.

H.M.Jr: Yes.

B: Yes .

H.M.Jr: And, look - will that necessitate your increasing your holdings?

B: Oh, no. No, we can work it out.

H.M.Jr: Ah-ha.

B: We can work it out with our Treasury bills next week you know.

H.M.Jr: Of course, I needn't tell you that one of the things that is bothering the market is the talk going around that you fellows are going to dump a billion dollars worth of

bonds.

B: Who heard that?

H.M.Jr: Well, we have down here.

B: I don't believe anybody takes that seriously.

H.M.Jr: Well, this fellow Goldsmith who writes this letter, and has quite a following, he believes it.

B: Does he really?

H.M.Jr: Well, you - you can talk to Gaston about it. He's been in to see him.

B: Well, he's a little shakey in the head anyway.

H.M.Jr: Who, Gaston?

B: No, Goldsmith.

H.M.Jr: Yes, but he has got quite a following.

B: Well, he was - he was just pulling - just talking to Gaston to have something to talk about, I think.

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

B: I don't - I haven't heard that in the past few days - I don't think anybody believes it around here.

H.M.Jr: Yes. Well, I think it would be good if the Federal Reserve joined us today and go fifty-fifty.

B: All right.

H.M.Jr: And we've done our bit for the last two days.

B: Yes. We're going on notes and, of course, the note market hasn't needed anything particularly.

H.M.Jr: So you took care of the notes.

B: What's that?

H.M.Jr: So you took care of the notes.

B: So we took care of the notes - (Laughs).

H.M.Jr: Yes - well -

- B: But they don't need anything. They're - they've been orderly and now it's their time to let down a little.
- As a matter of fact we did do four million notes yesterday. We did a switch - that took care of the situation.
- H.M.Jr: Ah-ha.
- B: But there hasn't been anything that needed to be done really much on the notes.
- H.M.Jr: Ah-ha.
- B: And I don't see any reason why we shouldn't go in with you on the bonds. I think it is a pretty good time.
- H.M.Jr: I think so, and I think it would be good education for the System, too.
- B: Yes; yes.
- H.M.Jr: Okay.
- B: All right then - now, we're going to spend some money today.
- H.M.Jr: You are.
- B: Don't you think so?
- H.M.Jr: I'll tell you what you do - call me up about 10:30 and let me know how it looks.
- B: All right; all right.
- H.M.Jr: Right.
- B: My guess is that we could get by with less than yesterday perhaps, but it's a pretty shakey market.
- H.M.Jr: It is?
- B: But the thing is coming to an end one of these days - these things always do.
- H.M.Jr: Oh, yes.

B: There is - there is no sound, basic reason for it, and I think we're bound to come to the end of it in a few days.

H.M.Jr: Well, let's - let's see how - how heavy going you have the first thirty minutes. I wouldn't change the program for the first half hour.

B: All right.

H.M.Jr: Then call me up at 10:30 and let me know how it looks.

B: Very good.

H.M.Jr: See?

B: Yes.

H.M.Jr: Because - well then, I'll - I'll know better, too.

B: Okay; that's first rate.

H.M.Jr: Thank you.

B: Yes, sir.

H.M.Jr: All right.

3-12-37

My dear Mr. Altmeyer:

Receipt is acknowledged of your letter of March 11, 1937, in which you enclose for consideration by the Treasury Department a draft of a proposed amendment to bring seamen employed on American vessels within Titles II and VIII of the Act.

Every possible effort will be made to expedite the study of this amendment and the Department's recommendation to you thereon.

Very truly yours,

Secretary of the Treasury.

Honorable A. J. Altmeyer,
Chairman, Social Security Board,
Washington, D. C.

AMK:ugh 3/12/37

March 12, 1937
10:33 a.m.

313

H.M.Jr: Hello?

Operator: Dr. Burgess calling.

H.M.Jr: Okay.

Operator: Go ahead.

H.M.Jr: Hello?

Burgess: Hello?

H.M.Jr: Yes, Burgess.

B: Well, the market is still a little weak. They're slipping a little. It's pretty hard to tell much about it. It's all over the place.

H.M.Jr: Yes.

B: We bought about two and a half million so far.

H.M.Jr: Ah-ha.

B: Mostly the two and one-halves.

H.M.Jr: That's the total?

B: Yes, that's the total.

H.M.Jr: Ah-ha.

B: And the two and one-halves we're bidding seventeen on now.

H.M.Jr: Yes.

B: I think there's nothing to do but go ahead with this - putting in fair-sized bids each a thirty-second down, and keep it orderly.

H.M.Jr: Yes.

B: And it will turn around, one of these days.

H.M.Jr: Ah-ha. Well, supposing you call me back at 11:00.

B: All right.

H.M.Jr: Did you talk to Marriner?

B: I sent word to Marriner.

H.M.Jr: Ah-ha.

B: That's all right though; we haven't had to buy anything yet on that.

H.M.Jr: Okay.

B: Yep.

H.M.Jr: You don't know what's the matter with ~~it~~, do you?

B: No. No, it's just got a case of the jitters, that's all - one of these waves of psychology.

H.M.Jr: Ah-ha.

B: They all say there's going to be an inflation, and prices are going up and bonds are going down.

H.M.Jr: Ah-ha.

B: It's all part of the general feeling of the spiral in wages and prices going up.

H.M.Jr: Well, supposing you call me back at 11:00.

B: Very good.

H.M.Jr: Please.

B: First rate.

March 12, 1937
10:37 a.m.

315

Leon H.
Keyserling: Good morning.

H.M.Jr: Mr. Keyserling?

K: Yes.

H.M.Jr: I just want to tell you that I've been going over with
Mr. Bell -

K: Yes.

H.M.Jr: - this housing bill.

K: Yes.

H.M.Jr: And Bell saw the President about it yesterday.

K: Yes.

H.M.Jr: Now you know the President is gone; Mr. Bell is leaving
tonight for two weeks, and I'm leaving for two weeks.

K: Yes.

H.M.Jr: And I wanted you to tell the Senator that we haven't
gotten - haven't gotten far enough to give the President
a finished plan.

K: Yes.

H.M.Jr: But we're going to continue to work on it while he's
gone.

K: Yes.

H.M.Jr: And as - by the time the President gets back, why we
hope to have something for him.

K: All right; fine. I'll tell the Senator that as soon
as he comes in.

H.M.Jr: Well, he won't be in until Monday I hear.

K: I understand not.

H.M.Jr: But the people in the Treasury are going right ahead
with their work.

K: All right, sir.

H.M.Jr: But we haven't gotten along far enough to - to present the President a completed plan.

K: All right, sir - Mr. Secretary.

H.M.Jr: All right; thank you.

K: Thank you very much..

H.M.Jr: Right.

March 12, 1937
11:17 a.m.

H.M.Jr: Hello?

Burgess: Hello. Well, things are a little quieter now.

H.M.Jr: Yes.

B: They've thinned off a little bit. There are a few bids in there besides ours, so we haven't done anything for the last ten or fifteen minutes.

H.M.Jr: Ah-ha.

B: It's just under five million so far.

H.M.Jr: I see.

B: And it's one of those pauses. I don't know whether - what it means or if it is a pause that will last, -

H.M.Jr: Ah-ha.

B: - or a pause that refreshes like coco cola.

H.M.Jr: Well, why don't you call me again in another thirty minutes.

B: Okay.

H.M.Jr: And we got five million.

B: Just a little under five million - yes.

H.M.Jr: All right, Burgess. Well, supposing you call me back in 30 minutes.

B: Very good.

H.M.Jr: Thank you.

March 12, 1937
11:25 a.m.

H.M. Jr: Hello?
Marriner
Eccles: Hello?

H.M. Jr: Marriner?

E: Yes, Henry.

H.M. Jr: I just wanted to draw your attention to today's Government bond market, and up to a little while ago it was pretty sloppy going. It seems to have stopped - see? So I wanted to draw your attention to it.

E: Well, I talked to Burgess late yesterday -

H.M. Jr: Yes.

E: - and when I was - I was just going to call you here when you called me. I called back a minute ago and you were out.

H.M. Jr: Yes.

E: You're going out of town today, aren't you?

H.M. Jr: Yes.

E: I'd like to - I was going to ask for an appointment - I'd like to talk to you about that and two or three other matters.

H.M. Jr: Well, can you come over at - how are you fixed this afternoon?

E: I can come over any - any time after 2:30.

H.M. Jr: How about 3:00?

E: 3:00 would be better.

H.M. Jr: I would be delighted to see you at three.

E: All right; I'll come over there at three.

H.M. Jr: Okay.

E: All right.

H.M. Jr: Thank you.

March 12, 1937
11:35 a.m.

H.M.Jr: Hello?

Operator: Mr. Yellowley.

H.M.Jr: Hello?

Yellowley: Good morning, Mr. Secretary.

H.M.Jr: Hello, Yellowley.

Y: Yes, sir.

H.M.Jr: What happened out there today?

Y: I beg your pardon?

H.M.Jr: Anything happening out there today?

Y: Oh, there's a pretty rotten article in the Herald Examiner this morning.

H.M.Jr: What did they say?

Y: Do you wish me to read it to you?

H.M.Jr: Well, I mean what are the headlines?

Y: Headlines written right straight across the paper in big letters: "Who plays liquor across city in U. S. protests," - No, wait a minute. "High court" Wait just a second. Yes - "Who plays liquor across city? Capone gang busy in prohibition era, as busy - Capone gang busy as in prohibition era. Yellowley rule over Alcohol Tax Unit assailed by Igoe aides." That was this morning's paper.

H.M.Jr: Ah-ha. Well, send a copy of it down to Harold Graves.

Y: It's already in the mail, Mr. Secretary.

H.M.Jr: All right.

Y: Air mail, special delivery.

H.M.Jr: All right.

Y: Mr. Manning and Mr. Avis are here in my office now.

H.M.Jr: All right. Ask Manning - Let me talk to Manning a minute.

Y: Yes, sir.
Tom
Manning: Hello?
H.M.Jr: Manning?
M: Yes
H.M.Jr: Anything you want to tell me?
M: Why nothing except this - that Mr. Yellowley got a letter this morning from the United States Attorney telling him that he needn't appear today -
H.M.Jr: He need not?
M: - and they're sending on a report to the Attorney General.
H.M.Jr: Who was?
M: ah - Michael - Michael is sending on a report to the Attorney General.
H.M.Jr: Ah-ha.
M: That's in accordance with our understanding.
H.M.Jr: Well then they didn't - they did hold up their -
M: Yes.
H.M.Jr: They held up their end of the bargain, eh?
M: That - that was just the publicity angle.
H.M.Jr: Well -
M: Of course, I guess you can't say that wasn't within the idea of our understanding.
H.M.Jr: No. It's like all these things. You have to give them enough rope - that's all.
M: Sure - surely.
H.M.Jr: What? I don't think we want to do anything on the publicity.
M: Well, we're getting a complete report here, and we'll have it ready Monday morning.
H.M.Jr: Okay. Thank you.

March 12, 1937
11:40 a.m.

321

H.M.Jr: Hello?

Operator: Dr. Burgess.

H.M.Jr: Yes.

Operator: Go ahead.

H.M.Jr: Hello?

Burgess: Hello?

H.M.Jr: Hello, Burgess?

B: Yes.

H.M.Jr: What do you know?

B: Well, it's just fairly quiet.

H.M.Jr: Ah-ha.

B: Prices aren't much changed from the last time I talked to you. We picked up altogether now six and a half million. That's about a million and a half since I talked with you.

H.M.Jr: I see.

B: But things are under control, and there are more selling orders than buying orders in the dealers' hands -

H.M.Jr: Ah-ha.

B: But it isn't settling very heavily.

H.M.Jr: Ah-ha. Now just a second - well, just let me ask - just a minute, Harris just stepped in; will you hold the wire a second?

B: Yes.

(Pause)

H.M.Jr: Will you call me again at 12:00?

B: Okay.

H.M.Jr: Please?

B: Yes.

H.M.Jr: Thank you.

March 12, 1937
12:02 p.m.

H.M.Jr: Hello?

Operator: Chairman Eccles.

H.M.Jr: Hello?

Marriner
Eccles: Hello?

H.M.Jr: Marriner?

E: Yes.

H.M.Jr: Before you come over, I wish you'd be thinking about this - this bond market continues bad, see?

E: Yes.

H.M.Jr: And I want to talk to you when you come at three o'clock of the possibility of these bonds that you're buying - that you add to your list and don't let the thing run off. One of the things that - I'm told is the matter with the bond market is that there's gossip around that you fellows are going to sell a billion dollars worth of bonds, see?

E: Well, of course, that's just a stale, cock-eyed - I've read the same thing.

H.M.Jr: I know, but now just - now wait a minute. I want you to think this over because - talk to your associates.

E: Yes.

H.M.Jr: I mean I'm just raising the thought that supposing the Federal Reserve added fifty million dollars' worth of bonds to their portfolio instead of letting fifty million worth of bills run over. Now that's the best answer whether you people have any confidence in this bond market.

E: Well, of course, we'll show if we - if we increase our long bonds and let our - let - let merely the bills run off, that we do have confidence in the bond market. That will - that'll show up.

H.M.Jr: I know, but, Marriner, what I'm talking - I've been talking to them for three years about this idea of breaking this ice jam that you fellows have got that you won't increase your portfolio beyond two and a half billion.

E: Yes.

H.M.Jr: Now - I just - just want to have you think about it. I - I said again and again that that thing shouldn't be rigid. Now, I'm just raising it now so that you can think about it. But the fact that they buy more bonds and let them just run off, doesn't answer the point that I'm raising now. I'm not going to bring any pressure to bear, but I am going to raise the question.

E: Yes, well that's all right. I - I think it's a proper question to raise.

H.M.Jr: And the decision will have to be yours, but this letting the stuff run off and then add a few bonds isn't going to convince anybody that you fellows have got any confidence in this market. And, of course, the trouble - part of the trouble we're having is due to the increase in the excess reserves.

E: Well, of course, that's what they say, but when you get right down to it, you've - you'll have huge excess reserves after that's gone into effect, and the trouble is you've got - you've got your insurance companies and your big investors with nearly - just tens of millions of idle funds. I mean it's just a question of waiting to see where it goes.

H.M.Jr: All true, but -

E: It didn't show that there was any shortage of money to do it, but it's - it's this damn stuff like some of these fellows put out. That fellow Angus for instance - You read some of the stuff he put out.

H.M.Jr: Well, not recently.

E: Well, I just got a circular this morning. It's just typical. He says: "Recent remarks made by Eccles and Morgenthau have, however, been interpreted to give the impression, which I believe to be unfounded. The Washington authorities believe that no decline in the long-term interest rate is likely;" and then he goes on to say why it is and so forth, see?

H.M.Jr: Well, I'm - I'm just raising the question and I thought you might be thinking about it because you know I've been singing this song a long time about not keeping your portfolio rigid, and -

E: Well, of course, it isn't a question of - it isn't a

question of wanting to keep it rigid at all. It was merely a question - we had huge excess reserves before and to reduce or increase the portfolio as such it - it either decreased a small amount the reserves which would make no difference because they were so great, or it would increase them more, of course, which was unnecessary.

H.M.Jr: Yes.

E: That - that was it. Now, of course, when you get down to a point with the reserve out of the picture then your portfolio has got to be a factor either up or down to meet your situation -

H.M.Jr: Yes.

E: And we've been - and the whole move has been to really maneuver into position for the first time so that we would use this portfolio which we never had a justification for using before.

H.M.Jr: Yes.

E: You see before the reserves go into effect.

H.M.Jr: Well, of course, I disagree with you on that because when I was sweating here for two years -

E: Oh, well, I mean since I've been over here.

H.M.Jr: Yes, well, I mean before that.

E: Oh, yes, well that's swell. Yes, but that was in - that rat, of course, was before we had any power to increase reserves. I agree with you - in September of '34 -

H.M.Jr: Yes.

E: - there was a time when they should have increased their portfolio.

H.M.Jr: Yes.

E: Well, I agree with you - I was 100% for it.

H.M.Jr: Well, what I'm trying to think of is some gesture to show the world that you fellows have got some confidence. Now maybe - I'd like you to think about it and we'll talk about it when I see you.

E: Yes, well I'll - I'll think about it and - yes, but it's - of course, it's something that I can't act on. I'd have to get the consent of the open market committee.

H.M.Jr: Well, I don't know whether you want to do it, but if you think favorably about it, I think it's important enough that you do call it because it's like all these things - they run their course and - but all the news is bad news and they keep feeding it out. And - I mean - I could sit back and do nothing. We got our 96% conversion, and we're all right, but -

E: Of course, I - I don't - I don't feel badly if the market should - even if it went off another point, it would only have gone off a couple of points from a very high mark.

H.M.Jr: Yes.

E: And it's - we can't expect it to continue to go up and if - if it can - if it can gradually in an orderly way work off a little, then I'd - I'd feel, however, that there is a point that we certainly shouldn't let it become demoralized.

H.M.Jr: Yes, well -

E: Very definitely.

H.M.Jr : Yes.

E: I - I - I still feel that if you had financing to do, if we were in a position here where the - the Government was going to need a lot of new money in the near future or something of that sort, it would be a little bit more important. But it does seem to me that some - we can't expect the market to be just exactly the same all the time, can we?

H.M.Jr: But - there - there's no fundamental reason why it should be behaving this way, that's all.

E: Only psychological -

H.M.Jr: Yes.

E: That's all. It's just the - one of the things it's doing is - is these damned increasing - unjustifiable increases in prices that are going on here in some of these things. That naturally means an increased

cost of living, and people say, "Well, the dollar will buy less, why should I get a fixed interest bearing security? I'm going to get out of it and go into stocks." And then that's really the reason. And that's what I wanted to talk to you about. I wanted - I wanted -

H.M.Jr: I'm not sure that you're right.

E: Well -

H.M.Jr: There are a lot of other things.

E: Of course, there is a combination of factors here, but -

H.M.Jr: That's one thing but there are a lot of other things. There are all these bills pending on the Hill, and the social security, the railroad retirement, the housing -

E: This housing bill - that's right - and - and the social security knocking out some taxes and - in other words, there's a feeling that - that some of them have, but that's - I don't believe that's so very strong.

H.M.Jr: Well, you come over at three and we'll have a chin.

E: All right (laughs).

H.M.Jr: Thanks.

E: Goodbye.

March 12, 1937
12:02 p.m.

Operator: Go ahead.

H.M.Jr: Hello, Burgess?

Burgess: Well, it's a little quieter - it's been quiet. Quotations are the same as when I talked to you last. We bought very little additional.

H.M.Jr: Ah-ha.

B: The total is about seven million now.

H.M.Jr: Well, supposing you call me again about a quarter of one.

B: All right.

H.M.Jr: Will you please?

B: Very good.

H.M.Jr: Thank you.

March 12, 1937
12:35 p.m.

Burgess: - they got out of bed about fifteen minutes ago.

H.M.Jr: Who did, Burgess?

B: The - the bonds.

H.M.Jr: Oh.

B: (Laughs) Somebody started selling; the selling increased so they slipped away pretty fast.

H.M.Jr: Yes.

B: Some of the other issues, particularly the
and so on.

H.M.Jr: Yes.

B: The two and one-halves are off 2 or 3/32nds more
around fourteen, fifteen, along in there.

H.M.Jr: Yes.

B: We bought up to fourteen or fifteen million.

H.M.Jr: Yes.

B: But I think there's nothing to do but just keep on
buying going away.

H.M.Jr: Well, I just got through talking with Eccles. I'll
continue today and tomorrow, but the thing that I put
up to Eccles is, isn't this the time that the System
shows that they have got a little confidence and
increase their portfolio instead of always letting
this stuff run off the way they have for the last
three and one-half years now.

B: Well, I think that would be interpreted as a sign of
weakness probably, but still you don't know.

H.M.Jr: I think it would be - I think it would be one of
strength. I mean this thing has been frozen now for
three and a half years -

B: Yes.

H.M.Jr: - and when things are bad is the time the System
should step in. Then when the bonds go up, they got
something to sell again.

B: Yes.

H.M.Jr: But, ah - I mean -

B: We can go - we can go quite a long way without showing any change in the portfolio, you know.

H.M.Jr: Yes, well that's just the trouble. It's - it's - I mean if this thing continues today and tomorrow, I don't think just a pawn in the market is going to stop it. I think that somebody has got to show that they've got some confidence.

B: Yes.

H.M.Jr: And I think that one of the ways to do it is to let the System's portfolio increase. Now Eccles is coming over at three, and I've just through-talking to him, and I've asked him to think it over.

B: Yes - yes - well, I'll talk it over here with the Governor. I'm sitting at his desk now, by the way.

H.M.Jr: Yes. And - perfectly frankly, if - if my brain wasn't tired out, see?

B: Yes.

H.M.Jr: - which it is after all I've been through for the last couple of months, I'd do something entirely different. I'd pull out all the orders.

B: Yes.

H.M.Jr: But I - I'm tired and I - I don't want to make - do something when my - when my brain is tired.

B: Well, we'll - we'll talk it all over here.

H.M.Jr: But if - if I was fresh, I - I'd do different than I am now, but with a tired brain, I'm not going to do something which I might be doing just because I happen to be overtired.

B: I don't believe that would make much difference. We're - as a matter of fact on these two and one-halves a few minutes ago, we found they were hitting our bids every minute -

H.M.Jr: Yes.

B: - so we took out our bids -

H.M.Jr: You did?

B: - for a while, to see what would happen.

H.M.Jr: Well -

B: Nothing has happened while I was talking to you on the phone.

H.M.Jr: Yes. Well, it's just one thing that Morgenthau luck - we got -

B: (Laughs)

H.M.Jr: - 96% conversion.

B: You're right about that.

H.M.Jr: What?

B: You're right about that.

H.M.Jr: Yes, that - that still holds.

B: Yes, yes. That's right.

H.M.Jr: I mean - we get through - we always do get through, and now, frankly, I'd like the Open Market Committee to do a little worrying.

B: Yes.

H.M.Jr: Because you can't laugh off the fact that certainly increasing excess reserves has got a lot - has got a lot to do with this thing.

B: Oh, it has got something to do with it. There's no doubt about that.

H.M.Jr: Well, I mean - it's - it's - it's a part of the picture.

B: Yes.

H.M.Jr: And - I - I - I - I'd like the system and the Open Market Committee to realize that.

B: Yes, yes.

H.M.Jr: And all these statements about money rates and the short term rates are going up, and all these public statements - I mean that doesn't help any.

B: Well, we - we'll talk it over here very carefully.

H.M.Jr: Is George there?

B: See if we have anything to suggest in new technique or in broader policy.

H.M.Jr: Is George there?

B: Yes, he's right here. Do you want to talk to him?

H.M.Jr: Please.

George Harrison: Hello?

H.M.Jr: Hello, George?

H: Yes, Henry.

H.M.Jr: As I was telling Burgess that if I didn't have a brain fag, I think I'd do something different, but being really completely exhausted, I just got to do the orthodox thing and support the market, see?

H: Yes.

H.M.Jr: But I'm going to have a lunch right here at the desk and I'm going to sit here. Now, I mean I think - I just got through talking with Eccles and the thing that I've asked - the question that I've raised - that's all I can do - is the question which I have raised time and again - is that the System let - increase its portfolio

H: Yes.

H.M.Jr: See?

H: Yes.

H.M.Jr: Now as - now Burgess says it's a sign of weakness; I say it's a sign of strength, but -

H: Well, I don't know, it's -

H.M.Jr: But I can't - all I can do is to raise the question.

H: Yes, I think that's right. You raise the question and let us think about it; but offhand, Henry, I whether it's a sign of weakness or not.

It certainly raises serious question and doubt on the ground that it is a reversal of policy. Here what we've been doing - you've been worried about the hot money, keeping that out. Here we were trying to stop up excess reserves, and we've increased reserve requirements.

H.M.Jr: Yes.

H: And now the next logical step would be to sell some Governments, but of course, with a market condition like this, you can't think of that. But that's what they would think of next naturally.

H.M.Jr: Well, that's - that's what's around all over. There's gossip all over that you fellows are going to sell a billion dollars' worth of this stuff.

H: Well -

H.M.Jr: Well that's - that's part of the story. As I say - two things. In the first place, we got our conversion - 96% - beautiful - see?

H: Yes, that was fine.

H.M.Jr: Now that's over. Now we got some - perfectly frankly, when I'm tired, I know I'm tired and then I'm extra cautious.

H: Yes.

H.M.Jr: And -

H: But frankly, also I don't think I would worry very much about it. It's true it's going down, but the whole market - the whole bond market is off. There's been a great many people expecting a re-adjustment in the bond market for some while. And I think all of the talk about increase in prices is the thing that is fundamentally at the bottom of it.

H.M.Jr: Yes, well talking about it isn't going to help it any though.

H: Yes, well I say all the talking -

H.M.Jr: There's too damn much talking. They're always talking about this and talking about that, but they don't do anything about it.

H: Well, I mean all - all the realization - put it that way - that prices are going up, and have been going up very rapidly.

H.M.Jr: Yes.

H: Apparently the

H.M.Jr: Yes.

H: And, therefore, people have just suddenly begun to shift somewhat from bonds to stocks.

H.M.Jr: Yes. Well, hasn't that been going on for a long time?

H: No, I think one of the miracles of the whole thing has been that bond prices have been going up as steadily as they have along with stocks in face of the possible inflation of prices, and normally when you get an inflation of prices, bonds do go down. So I think we're just having a reaction here, but it's responsive to a belated recognition that prices have gone up very rapidly in the last few months.

H.M.Jr: But I have had every reason to be pleased with what we went through Monday, Tuesday and Wednesday.

H: Well, I think you have, too.

H.M.Jr: And I'm not - I say that the reason I am talking so much on this thing is that I - I don't want to make any mistake; and I'm - I'm a little bit below par, and therefore I want to be extra careful.

H: Yes.

H.M.Jr: If I was feeling well, I wouldn't be bothering with this thing at all.

H: No, I think that's probably right - or anyway I don't think it's the time to get worried yet. I think it is time to watch it -

H.M.Jr: Yes.

H: - and to see whether there is anything different we can do about it. But I don't think this is bad.

H.M.Jr: Well, will you tell Burgess that I'm sitting right at my desk and to call me again, please, at 1:15.

H: All right; I'll tell him.

H.M.Jr: And you're there yourself.

H: Yes; I'll be here all day.

H.M.Jr: And I'll - I'll be at the office tomorrow.

H: All right; first rate, Henry.

H.M.Jr: The sun is still shining.

H: (Laughs) Sure. Pull it out.

H.M.Jr: Okay.

H: It's shining here, too.

H.M.Jr: All right.

H: Very good.

H.M.Jr: All right.

H: All right, sir.

March 12, 1937
1:18 p.m.

Burgess: We - every time we put up a bid they're plastering it.

H.M.Jr: So you took them out?

B: Yes, so we just pulled them all out to see what would happen.

H.M.Jr: And what has happened?

B: So far it is very quiet.

H.M.Jr: Ah-ha. Well, that's interesting, isn't it?

B: But we'll - we'll be right here, and we'll - if it - if it seems desirable to go in again we'll take a try at that. Just have to take a try at it and see what happens I think.

H.M.Jr: Well, supposing the minute anything changes, you let me know, because I'm sitting right at my desk.

B: I will; yes.

H.M.Jr: I mean, don't wait to have me call you.

B: All right.

H.M.Jr: What?

B: All right; I'll do that.

H.M.Jr: And I'd hate to see these two and a halves go below par.

B: Well, we're quite a long way off from that yet.

H.M.Jr: How much off?

B: 7/32nds from par.

H.M.Jr: That's not so much. (Pause) - All right.

B: All right. We'll keep you right with us.

H.M.Jr: Well then if anything happens, you call me.

B: First rate; yes.

H.M.Jr: Thank you.

March 12, 1937
1:40 p.m.

336

H.M.Jr: Yes.

Operator: Dr. Burgess.

H.M.Jr: Hello, Burgess? Hello?

Burgess: Hello. We're just - it's very quiet. There's very little doing. There are - there are offerings at something below what we were buying at a while ago, but there are very few bids in there. But I'm inclined to think to leave it a little while longer this way.

H.M.Jr: You've pulled everything out?

B: Yes; yes. There were about three or four of the dealers operating for some customers who were just plastering every bid we put up -

H.M.Jr: I see.

B: - on the Board. We were just talking to the Board fellow and it did get to be a racket for a minute there. I think the time will come when we'll go in again. We're sitting right here and watching it. We got a wire through to the Board so we can hear what's going on.

H.M.Jr: You have?

B: Yes.

H.M.Jr: Have you got a man there?

B: No (Laughs). But I just sent out for some sandwiches though.

H.M.Jr: How - you say you got a wire to the Board?

B: Well, we - we have a wire open to - to a broker who has a wire to the Board and we can hear what goes on.

H.M.Jr: All right. I see. How much are we taking today?

B: Thirty million.

H.M.Jr: How much?

B: Thirty.

H.M.Jr: Well that isn't as good as the Green Bay speech.

B: (Laughs) What was our biggest day then - do you remember?

H.M.Jr: Forty-five, I think.

B: (Laughs) Well, we can get plenty more if you want them.

H.M.Jr: No; thank you.

B: (Laughs)

H.M.Jr: All right; you -

B: Well, I think this is the thing to do.

H.M.Jr: All right.

B: Very good.

H.M.Jr: Thank you.

March 12, 1937
2:42 p.m.

Burgess: Well -

H.M.Jr: Yes, Burgess.

B: - I was just going to say that there is just a - just a faint sign that things look a little better.

H.M.Jr: Ah-ha.

B: There's a hundred of the two and a halves that sold at twelve.

H.M.Jr: Yes.

B: And there's another bid in there at ten. It's very - it's very quiet.

H.M.Jr: But not ours?

B: Not ours. We're still out entirely.

H.M.Jr: Clear out?

B: The market is - it's quiet. It's a little under where we stopped bidding in general, but there's just here and there a little sign of something a little better. Some of the offerings have been pulled out.

H.M.Jr: Well where is the stuff - where is it coming from?

B: What's that?

H.M.Jr: Where is it coming from?

B: The selling?

H.M.Jr: Yes.

B: From all over the place, banks, everybody else.

H.M.Jr: Ah-ha.

B: But I think it was partly from panicky dealers probably.

H.M.Jr: Probably what?

B: From panicky dealers.

H.M.Jr: Ah-ha.

B: But that wasn't only it. There were offerings came - there were three million bonds offered from the coast at any price.

H.M.Jr: Ah-ha. At any price?

B: Yes, they're offered at any price. You could make them a bid way down and think that you wouldn't get it, and they'd sell at that price.

H.M.Jr: Ah-ha. All right.

B: But it has quieted off now, and it looks as though the selling were a little discouraged. It looks a little better so I wanted to give you a flash.

H.M.Jr: Thank you.

B: All right.

H.M.Jr: Thank you.

B: I'll call again if there is any change.

H.M.Jr: Thank you.

B: All right.

March 12, 1937
2:55 p.m.

340

H.M. Jr: Hello?
Burgess: Hello?
H.M. Jr: What's happening, Burgess?
B: Well, there's no change.
H.M. Jr: No change?
B: Very quiet; very few transactions.
H.M. Jr: Ah-ha.
B: I don't think it is all over yet.
H.M. Jr: You don't?
B: No.
H.M. Jr: Ah-ha.
B: I think there are still people who want to sell.
H.M. Jr: Pardon me?
B: I still think there are people who would like to sell if they got a good chance.
H.M. Jr: Ah-ha.
B: But we haven't got any bids in. The market is - the Board market is very quiet.
H.M. Jr: And no bids in?
B: We have no bids. There are some other bids in here and there.
H.M. Jr: Yes.
B: So the market is quiet, and the actual quotations, for example, on these two and one-halves -
H.M. Jr: Yes.
B: - are around eight ten.
H.M. Jr: Yes - well.

B: Eight, ten, twelve. There are some offered at twelve.

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

B: Yes, that's all right.

H.M.Jr: Well, let's watch it. I'm here.

B: What's that?

H.M.Jr: I'm sitting -

B: All right; we'll let you know if there is any change.

H.M.Jr: Old Sitting Bull - that's me.

B: That's me.

H.M.Jr: Okay.

B: Very good

March 12, 1937
3:02 p.m.

H.M.Jr: Hello?

Operator: Expect Chairman Eccles in about five minutes.

H.M.Jr: Hello?

Operator: Chairman Eccles.

H.M.Jr: Hello?

Marriner
Eccles: Hello?

H.M.Jr: Marriner?

E: Yes, Henry.

H.M.Jr: I just want to tell you when you come over here we're going to give you the works and I don't know whether you want to bring anybody with you or not.

E: Well -

H.M.Jr: Or whether you want to take it alone.

E: I'll bring Dr. Goldenweiser.

H.M.Jr: Okay; I'm just warning you.

E: Is that all right?

H.M.Jr: Sure; I like Goldenweiser. I wish you'd bring him along.

E: What do you mean - the works?

H.M.Jr: Well you wait when you get here.

E: All right.

H.M.Jr: All right.

E: Goodbye.

MEETING ON GOVERNMENT BOND
MARKET DECLINE

March 12, 1937
3:10 p.m.

Present: Mr. Lochhead
Mr. Bell
Mr. Taylor
Mr. Haas
Mr. Eccles
Mr. Goldenweiser

H.M.Jr: Well, what I'd like to ask the Federal Reserve Board is what they are going to do with the machinery at their disposal about this present bond market?

Eccles: Well, of course, I can't answer that and say what the committee will do, and I couldn't answer right now specifically. I'd like to, of course, give a good deal of thought and consideration to it. I can say, so far as I am concerned, I think all the powers of the Reserve System should be used if it is necessary. Now it is just a question whether the conditions are such that it calls for action now or whether action now might do more harm than good. Those are the considerations.

H.M.Jr: Well, we've done \$75,000,000 in three days supporting the Government bond market, which is a purely artificial operation. I mean it doesn't correct anything. I mean it doesn't stop anybody from wanting to sell or give them any reason why they shouldn't sell. And frankly - I mean I am a great deal more disturbed about it than New York is.

Eccles: What is the - how far off today have the bonds gone? On the average.

Lochhead: Oh, they've gone off - let's see, the two and one-halves have gone from twenty-two down to ten for instance - ten-thirty-seconds any way. Some of the guaranteed issues have gone off three-quarters of a point.

Eccles: What was the high on the two and a halves? They haven't gone off two points from the high.

H.M.Jr: Oh, no - off about a point, point and a quarter.

- 2 -

Eccles: Yes.

Lochhead: About a point and a half from the highest.

H.M.Jr: Yes, but here is the thing. I mean if this thing continues tomorrow and next week

Eccles: Oh, then I think we ought to do something.

H.M.Jr: Do you want to see the two and a halves go through par? Now I - from the public standpoint, if it does, your Board is going to get the entire blame for this, right or wrong.

Eccles: We'll get the blame whatever we do; don't worry about that.

H.M.Jr: No.

Eccles: I mean if we go ahead and buy here is what the financial press will say - which I don't give a damn about. But here's what they'll say and what the bankers will say; they will say that the Federal Reserve is carrying on an open market operation to increase reserve requirements, which makes for an increasingly easy credit situation, when at the present time the amount of deposits is over two billion more than they were in '29; that the amount of excess reserves are already excessive, you see, and it is because of the huge amount of money and the excess reserves that are now in existence that we are getting an inflation of prices. Which isn't true; the price inflation is for other reasons. But I merely give you that as a - well, I just - this is typical this morning; I don't know whether you saw it; it is along the same lines, from the Journal of Commerce.

H.M.Jr: But listen, Marriner, let's stick to this thing. I mean

Eccles: Well, that's what it is; it is very directly on this point of open market operations.

H.M.Jr: Well, I - all right, I mean open market operation is just continuing to buy bonds the way you people have and then let your bills run off.

- 3 -

- Eccles: No, no. That is protection of the bond market. Now an open market operation is either increasing the total or decreasing the total. What we are doing is not open market operation at all. It is merely a shifting and that has no effect upon the supply of credit.
- H.M.Jr: Well, that's the point that I raised this morning. Now there is another point which I understand you raised after I left - the possibility that we have sterilized too much gold.
- Eccles: Well, no, what I said to Wayne and Dan the other day - I said that I wished that there was about a hundred million of gold that had been purchased by the fund prior to the time that the sterilization went into effect; that I had - I mentioned it to you, do you remember, one day?
- H.M.Jr: Yes.
- Eccles: Which I had counted at the time as a part of the excess reserves. I wish that were really in the excess reserves.
- H.M.Jr: All right. What about putting it in the excess reserves?
- Eccles: You mean putting the gold there?
- H.M.Jr: Yes, taking a hundred million of sterilized gold and releasing it.
- Eccles: Well, there is only the thing of having to explain it, that's all. I mean if it had never gone in, it wouldn't have required an explanation, but if it goes back you've got to explain that move.
- H.M.Jr: Well, the explanation is a simple one; that the Administration wants cheap money and it looks as though money rates were going up, and for that reason we are going to use one of the instruments at our disposal and release one hundred million of sterilized gold.
- Eccles: Well, I think that would have a bad effect.
- H.M.Jr: Well, why?

Eccles: Because I think you'd find your market - that would hurt your bond market more than help it. People would say, "Well, hell, that does mean inflation and we better"

H.M.Jr: Well, all I say is that I am not going to just sit here and not do anything. Now I'm going to wait and see whether you fellows are going to move. If you don't, I am, because I think just sitting here and buying 25 or 30 million dollars' worth of bonds isn't the answer to this situation. Now we have been chewing this thing for three or four hours. Now I think that we have - I think there is something fundamentally wrong; I don't know what it is. And I think we've got to try a little. Just buying 25 or 30 million dollars' worth of bonds isn't the answer.

Eccles: Well, I'll tell you what I think the situation is: That it is this price - it is this huge price increase that you are getting here with the last two or three months. Well, Christ, you can't do anything about that. You can't expect investors to

H.M.Jr: Listen, Marriner, you can't talk this thing; you can't talk it and make speeches about this thing and correct it, any more than Wallace can. But we've got certain things, and just to sit here and do nothing - now making speeches about the prices are going up and all that and not doing anything about it

Eccles: Well, I think the President could say something and it would make a great difference; that's what I think.

H.M.Jr: I don't know whether he could or not. I think you people overshot your mark on

Eccles: On what?

H.M.Jr: On your excess reserves.

Eccles: That hasn't got a thing to do with it.

H.M.Jr: Yes, it has.

Eccles: All right, that's what you think.

- 5 -

- H.M.Jr: Well, Marriner I've been here - listen I've been here for four years and I have yet to see, including yourself, that the Federal Reserve has done anything to help the Treasury with the bond market and cheap money except talk. Now I have sat here and I have listened to the Board; I have begged them and I have begged them, and whenever it comes to anything I have yet to see them do a God damn thing except to suggest something else; always it's something else.
- Eccles: No, you're entirely wrong on this thing. Now you're assuming here
- H.M.Jr: Well, I've stood it for four years - three years - three years and a half, and I have yet to see the Federal Reserve do anything except to tighten up and talk about cheap money, but when it comes to helping us on the thing, it's always the other way.
- Eccles: We left the excess reserves build up here ever since I've been over there - here until last fall. Therefore, we did nothing to tighten money. Now there was plenty of pressure for a year to extinguish those reserves. Well now we didn't do it at all, so that - you say we did nothing
- H.M.Jr: Nothing. I say they have done nothing except this movement toward the tightening up process.
- Eccles: Well, but it was getting easier and easier through the gold
- H.M.Jr: But the whole movement is the other way. But when it comes to standing here and taking the shocks, I've taken them for three and a half years whenever it's the bond market. I can stand here and buy the things, but just buying 25 or 30 million dollars isn't going to do it.
- Eccles: Well, of course, your bond market has gone down from three
- H.M.Jr: And I've got no financing; I don't need any money, and so it isn't a question that it's something which affects me. I got through my financing all right. Now the boys - I can take the attitude that let's pull the whole support away, let the whole damn

- 6 -

thing go smash. Supposing I take that attitude: supposing I take - tomorrow morning we won't buy any bonds and then throw the whole thing on you. Supposing I say beginning tonight I won't buy another bond, I'm through.

Eccles: You're assuming that I'm against you. I mean that is the attitude you're taking toward me now; that because I don't come over here and say immediately, "Yes, we'll go out and we'll buy 50 million, or we'll buy 100 million, or we'll buy 500 million," that that is against the Treasury. Now that isn't it.

H.M.Jr: No, I've been butting my head against this stone wall. I have begged the Federal Reserve when it wasn't necessary - when it wasn't necessary, to either let their portfolio go up or down. I've said that again and again, and I didn't care whether it went up or down - so that in case of an emergency, if you had to increase or decrease it, it wouldn't attract any attention. Now I begged them to do that, I don't know how many times, so that in case of an emergency you could go up or down and not attract attention. I said, "Just vary, so they don't get the idea that two and a half billion is fixed forever."

Now I can take the position that tonight - it's 3:20 - O.K., tomorrow morning we don't buy another bond, we're through, we got all we need for Postal Savings and everything else, we're finished.

Eccles: You don't think that the exchange from bills to bonds is helpful in the bond market? I mean that's what they're doing now; they're buying the bonds.

H.M.Jr: I think this thing - if this thing continues for another three or four days the way it is - I mean this thing - I differ with the boys in New York. I think that it is perfectly possible that tomorrow all the money may not keep this thing from going below - the two and one-halves from going below a hundred. You might just find this thing dumped, you see? And now there are two things. I can say "All right, the price - you priced it too high and this is wrong and that is wrong, and the only way to cure it is let her go - let her go."

- 7 -

And we've done our best, and the Treasury can't do any more. And Congress has given the Federal Reserve - by law to the Federal Reserve the handling of this problem. Let them worry. We're through, we don't need to borrow. And let's hope by the time June 15th comes around the money market is so we can borrow some more money. Let her go." But this isn't a thing you can fool around with.

Eccles:

But the portfolio has two purposes. It has one purpose - of course, you thought of it as merely a supporter or a stabilizer of the Government bond market. Now that is one function. It has another function and that function is to reduce or to increase the amount of excess reserves of the member banks, which is entirely apart from the operation of a supporter of the market. Now if we go into the market and buy Governments, we do it to support the Government bond market - I mean if we increase our portfolio. We don't do it to increase reserves, because the reserves are already adequate to continue to make for an easy money.

Now the insurance companies and your real investors in Government bonds - the big holders in long-term bonds are not the banks at all; your big holders of Government bonds are your individuals and your institutions. Query: If we should buy 50 or a hundred million of Governments, will that give them more confidence in the Government bond market, or will they say that that is merely increasing excess reserves, which means more inflation, and have less confidence in the Government bond market? Now that is just a query. I am willing

H.M.Jr:

Now let me ask Dr. Goldenweiser
The study we made here - the increase in the prices of commodities are all, we figure, war commodities.

Goldenweiser: Yes.

H.M.Jr: What?

Goldenweiser: Yes.

H.M.Jr:

And that's where the increase has come. It has not come from the large excess reserves or credits, because they are not using it. But it's a war demand.

- 8 -

Goldenweiser: Yes, I agree with that.

Eccles: That's right.

H.M.Jr: And you've got to put that to one side. Now this price thing is due to this World War scare, I mean.

Goldenweiser: Yes, the shortages of materials.

H.M.Jr: Yes, but not to speculation or excess credit.

Eccles: Not excess credit, but speculation.

H.M.Jr: But it isn't excess credit.

Goldenweiser: No, no.

Eccles: No.

H.M.Jr: Well, then, our staffs are together on that, and I think that that is basic in this particular thing.

Then the thing gets down to a question of - it's like all of these things. The Street - they always move in one direction. They make up their minds that long-term Governments have passed their peak, and how they make up their minds - it is awful hard to break it down, but they've made up their mind. And that's why I don't feel particularly at this time that standing there and just taking this thing is going to make them feel any happier. I mean I just - I don't feel that supporting the thing indefinitely is going to make these birds change their mind. And, therefore, I think there is something that the Federal Government has to do, some kind of a gesture to re-assure these people that long-term Governments are a good investment. Now I can't put it any Now what that is I don't know. But I think if we just sit here and wait, this thing may gather such momentum that it will be difficult to stop.

Now Harrison and Burgess don't seem to be so much worried. But I've never been as worried about a thing as when they are worrying; now I am more worried about this thing, and maybe I'm wrong - I don't know - but this movement

- 9 -

at this time worries me more than it has at almost any other time.

Eccles: It worries me more.

H.M.Jr: And the boys reminded me here that if this thing does get to rolling, go off another point or two, it may be very difficult to stop it. Now, who gets blamed, I agree with you, doesn't make much difference.

But I just - I think we've done something, see? It's just the way I said at Harvard, and I repeat it here. We have done fifteen, or sixteen, or eighteen different things that have a common nature. Pick one of those things and look at them, and it doesn't seem that individually they work, but the combination works. Now I think we have done something to upset that combination. I think we have done something to this combination which Roosevelt put together, which worked. Now we've done something, we've tinkered with this machine, and I think in tinkering with this machine, we've got too rich or too lean a mixture. And so tinkering with this machine has put the thing - she's choking. Now that's it, Marriner. Something has happened to this machine on this monetary policy, which you and I - we've got to take it - I mean I'm in up to my neck. But either you or I have tinkered with this - with the carbureter and our mixture

Eccles: But I've said, and so have you, I think, that monetary policy is the most important part in our economy, managed economy, but monetary policy can't go up against every other factor. Now it can't go up against increasing budgetary deficits; that's one thing it can't do indefinitely. And another thing it can't do I think you've got two factors today. I think there is a little more uncertainty about the budget than there was a month or so ago. I think some of this discussion here with reference to social security and housing and one thing and another, and relief, has created it.

Now that's one factor, but this I think is even more important than that. When you see the huge

- 10 -

profits that are being made in stocks - I mean the dividends, the earnings, that they are getting, and when you see prices increase such as they are increasing in practically every single line - now those price increases mean two things. First, they mean that the cost of living goes up and the dollar will buy less. Secondly, they mean that the earnings on common stocks and real estate are more. In other words, the earnings on equities in real estate are increasing whereas the income on bonds is not increasing. Therefore, the dollar that they get in their fixed interest bearing securities will buy less and less. Now it is a perfectly natural thing for any investor - you or I would feel the same way about it. If you see living costs going up pretty fast, you naturally feel that a fixed interest bearing security is not going to stay where it is unless you can get stability in your picture. Now I've been banking on stability and I think we can get it, but I think this market is anticipating - and the market always does - an increased living cost or a decreased purchasing power of the dollar.

- Taylor: Those aren't the fellows that are selling, Marriner. Your selling is coming from your banks.
- Eccles: Your what?
- Taylor: Your selling is coming from your banks. Those factors don't affect them.
- Eccles: Aren't individuals selling, too?
- Taylor: No.
- Haas: And this didn't start - individuals don't own these bonds any way.
- H.M.Jr: One of the things that made me increase my price on Saturday was that I heard Continental, Chicago, sold twenty-five million dollars' worth of long-term Governments last week. That was last week.
- Haas: And the price decline started right after you let that announcement leak out. We traced it on the bond curve. That is, that you would probably do something on excess reserves.

- 11 -

Eccles: Probably what?

Haas: Probably would do something with regard to excess reserves after the first of the year. Go back to the curve, trace the decline; it started right about - almost the same day.

H.M.Jr: But that's when it started?

Haas: Ah-ha.

Taylor: Well, that's all over the dam.

H.M.Jr: No, it's not, because it can be corrected. Now, Marriner gave me the idea himself through you fellows.

Taylor: But I mean, doesn't it get down to this: Do we want to support the market?

Eccles: Well, I think we do. It is just a question of timing it. I'm not questioning the

H.M.Jr: It was about November 24th that this first statement came out about excess reserves, which was Saturday, eh?

Goldenweiser: (Looking at chart.) It certainly is an approximation of that from this chart.

Eccles: To stop a price rise, to createtight money would be just the wrong

H.M.Jr: To what?

Eccles: To try to stop the price rise by tightening money would be the wrong thing to do.

H.M.Jr: But that's just what we're doing.

Eccles: No, you're not, because you've really got more money

H.M.Jr: But that's exactly what you're doing.

Eccles: What?

H.M.Jr: You're creating tight money. That's my whole point.

- 12 -

Eccles: Yes, but you couldn't - we could go ahead and throw the reserves clear back where they were and you still wouldn't get easy money. You then, in my opinion, would get a real running from long fixed securities, because if you ever let the excess reserves get into the picture, you've got inflation.

H.M.Jr: Do you mind a minute if I just ask Dr. Goldenweiser something? Do you mind?

Eccles: Go ahead.

H.M.Jr: If I ask you (Goldenweiser) a question: What tools do you think, if any, we should use at this time?

Goldenweiser: To support the market?

H.M.Jr: Well, I - no, I'd rather not use - I'd rather say to change the general direction of Government securities, both long and short.

Goldenweiser: What tools you should use?

H.M.Jr: I mean if it is possible. Or I'll put it easy: Is there anything we can do, either the Federal Reserve Board or the Treasury, at this time, to change these trends? These trends which started about - is there anything which you think we can do or should do?

Goldenweiser: And you mean the Federal Reserve and the Treasury and nobody else?

H.M.Jr: Well, that's all that Eccles and I can do.

Eccles: Except we can talk to others, I think.

H.M.Jr: I mean within our own backyards, is there anything we can do or should do?

Goldenweiser: Well, I think this way, Mr. Secretary. I think that so long as - if these last few days are nothing but a flurry and if it doesn't - you can set your point at any arbitrary point you want and say when it approaches within a half point of par, within three-quarters

- 13 -

- H.M.Jr: Well, it was seven thirty-seconds, using the two and one-halves as an example. It got down to that.
- Goldenweiser: Yes. Well, I think they ought not - I don't think they ought to be allowed to pass below par if we can prevent it.
- H.M.Jr: They told me they got to seven thirty-seconds over-the-counter and I got disturbed.
- Goldenweiser: When was that, Mr. Secretary.
- H.M.Jr: Sometime today. I mean on the buying board they went down to nine thirty-seconds, but they sold over-the-counter, I understand, at seven thirty-seconds - and the big board, nine.
- Eccles: Well, it is just a question - as I say, it is just a question of timing it. Now there is no justification certainly for long-term investments to go down very far, any more than
You can't, of course, keep any market always going up, and you can't always keep it more than within a range of a few points.
- H.M.Jr: I know, but just - do you mind if we give him
- Eccles: Oh, pardon me.
- Goldenweiser: That's all right, it's a difficult question to answer.
- H.M.Jr: Well, I don't want to press it.
- Goldenweiser: No, I don't like to sidestep a question.
- H.M.Jr: I mean just take me as an undergraduate.
- Goldenweiser: No, I want to answer. I just find it a little difficult. It isn't that I have any hesitancy about it. But what I would do, I think, is agree on a point. You say it is seven thirty-seconds; agree on some point, five or six or whatever point you want, and at that point the Treasury and the Federal Reserve to buy - make a large buying operation, not letting it go down below par.
- Eccles: Now we've got to make a statement when we do that. The Federal Reserve has, at least, and what I am

- 14 -

thinking of is that I am in full accord with you that we've got to let the public know that we are not going to resort to a tight money policy in order to try to control commodity prices, because commodity prices are not going up today except through, as you say, war or monopoly, and certain factors that are not monetary at all. I - maybe I should have waited; were you (Goldenweiser) through?

Goldenweiser: No, I was through on that point.

H.M.Jr: I don't know what you mean. You just would throw in a lot of money?

Goldenweiser: I'd buy and I'd buy without reference to the - I mean I wouldn't let bills run off at the time, I'd increase the portfolio.

Bell: In other words, you would increase your portfolio?

Goldenweiser: Yes, I'd buy.

H.M.Jr: What?

Goldenweiser: I'd buy, yes.

H.M.Jr: Well, you see when the thing - if there's a policy and we say we shouldn't let the two and one-halves go below par, and then they get down to seven thirty-seconds - and the market today was jumping four thirty-seconds at a time, you see.

Goldenweiser: Yes.

H.M.Jr: It was pretty close. I mean four thirty-seconds today meant nothing.

Goldenweiser: Well, Mr. Secretary, you see the point is this. You've been buying and the Federal Reserve has been buying, but they have been buying unspectacularly, so to speak, within our portfolio and within your investment funds.

Eccles: You've followed the market down.

Goldenweiser: Yes. I think you can set your arbitrary point and give orders. I mean the Treasury can give its orders and the Federal Reserve open market committee

- 15 -

can give its orders to make something of a spectacular move, and say that it will not be permitted to fall.

H.M.Jr: But in that, you would increase the portfolio of the Federal Reserve?

Golden.: Yes, I would. I would.

Eccles: I think that's the only way you can get a real effect.

H.M.Jr: Well, that's what I'm trying to get out of you fellows. I mean not a commitment today, but just to I think just to buy quietly and let the stuff run off and swap long and short - I don't think it will do the trick. Because it is like everything else; we manufactured this stuff and we haven't got enough confidence in our own goods. Why should anybody else?

Golden.: Mr. Secretary, there is a question, a legitimate question, as to whether that will strengthen it or weaken it. A good many argue that it would weaken it. But I myself have reviewed in my mind, as I told the Governor shortly before we came - I reached the conclusion that I think it would strengthen the market.

H.M.Jr: Well, I put myself on record that if you people decide it, I think it would strengthen the market.

Eccles: I think it depends...

Bell: Scotch the rumor that they are going to decrease the portfolio.

Eccles: It depends on the statement, I think, that the Open Market Committee makes at the time. I think that statement is very important; it is as important as the action.

H.M.Jr: May I suggest this, Marriner? Everything - up to now we've been able to work it out together. We've got to do it; there's no argument. And what I say in this office will never be repeated. It's only in this office. I'd like to make one more suggestion. I'd like to suggest that you have your Open Market Committee here at ten o'clock tomorrow morning - the Executive Committee.

- 16 -

Eccles: Well, if we can get them.

H.M.Jr: Oh, I think you can get them.

Eccles: I think we can.

H.M.Jr: You can get the fellows from Philadelphia and....

Eccles: Well, I was intending to get them; you didn't need to suggest that.

H.M.Jr: You can get Harrison, Burgess; you can get your fellow from Philadelphia.

Eccles: Well, Ransom is here now.

H.M.Jr: And your Philadelphia fellow.

Eccles: Ransom gets back, I think, this afternoon; he'll be here. And we'll get Sinclair.

Golden.: We can get Fleming too.

Eccles: Fleming isn't on this year. Sinclair's on; he went on last meeting.

H.M.Jr: I mean anything I say - it's nothing personal. You understand that.

Eccles: Well, I've known that for a long time. I've never taken it as a personal matter; if I had, I'd have been sore before now.

H.M.Jr: But why don't you get them together and then come on over here and let's have a chin. What?

Eccles: I think what you better let us do - I'd like to - they may want to meet, you know, and - be perfectly agreeable to me, but I'm just thinking....

H.M.Jr: Well, why not let them meet? My train doesn't go until six tomorrow evening. When you fellows are ready, you let me know. How's that?

Eccles: That's all right. I think the situation has reached a point where we ought to decide on a policy. Now,

- 17 -

if this is just temporary and this other isn't necessary, it will be so much the better; if it isn't, then I say we've got to let the public know that we are not going to permit a tight money situation to develop in order to control price inflation - that is, commodity price inflation.

Haas: Attempt to control one which is not controllable by those means.

Eccles: That's right; that's it.

Golden.: Mr. Secretary, when we announced the raising of reserve requirements, we said that this puts us in a position to expand or contract the reserves through the open market, and therefore there is nothing inconsistent in our doing it.

Eccles: No, we are clear on that.

H.M.Jr: That's all I'm.....

Eccles: We said that reserves is a clumsy instrument and it has to come in big gobs, nationally, and that the more flexible adjustments both ways can come through the open market.

H.M.Jr: Well, that's all I've been trying to say, and that's all I've been trying to say all day to Harrison and Burgess, and they don't agree.

Eccles: You mean even in.... I was out; I asked Dr. Goldenweiser; I had to go to a lunch.

H.M.Jr: No, they don't think that this is the time to do that.

Eccles: Well, I talked to Burgess this morning, but that was before you talked to me, and I didn't get that impression.

H.M.Jr: You boys heard. I had Harrison on the wire here at ten minutes of three.

Eccles: Here's what Randolph said to me this morning. I said, "Now, we're just as interested, possibly more so in this Government bond market than the Treasury

is, see?" And he agreed. Now, I said, "It's just a question of timing it as to when this market has got to be supported, see, to a point where it's going to be stopped going down." And he agreed to that. So that there isn't any disagreement as to the need of supporting the market.

- Lochhead: You mean, though, supporting the long term issues. For instance, New York believes you should support the long term and not the short term market. I mean you've let your funds roll over and you haven't actually put any money into the market. You have simply protected your long term bonds at the expense of the short term issues.
- Eccles: Well, what I mean is by increasing the portfolio to whatever extent it may be necessary to support the market.
- Golden.: Did Randolph agree to that?
- Eccles: He agreed to it this morning.
- Golden.: I mean with the understanding that we would increase the portfolio?
- Eccles: He agreed that whatever was necessary to stop the market from going down.... Now, it was just a question of timing it. He said, "Now, if this is a flurry and will run itself out, we are better off, of course, to not take a major action and have to explain it, see? If it isn't, then we've got to do it."
- H.M.Jr: Well, he didn't go that far with me.
- Taylor: You've got to be in shape to do it if it is necessary. You've got to say, "All right, here's the bridge which we may have to cross."
- Eccles: That's right.
- Taylor: "Are we prepared to cross it without any regrets?"
- H.M.Jr: Because the other thing - I can sit here and say,

- 19 -

"The only way to bring these spending babies to their senses is to let the bond market go to hell." And I think that's too dear a price to pay.

- Eccles: Well, you can't - you can't - if there was a real justification... But you've got billions of idle money that hasn't got any place to go, and therefore there is really no justification for more than a temporary adjustment.
- H.M.Jr: Well, let's leave it this way. You're going to ask your boys to come down here.
- Eccles: Yes, I'll ask them to come down.
- H.M.Jr: And then whenever you are ready you'll give me a ring. And maybe by tomorrow the country will have settled down and straightened itself out. On the other hand, the selling may continue; and until this is straightened out, we can fight where we are, that's all - keep this thing going. But as I feel right now, there's no difference between the way you're thinking and I'm thinking.
- Eccles: No, it's just a question, as I say, of price and timing; it isn't a question of the objective. Whether it should be at 101 or whether it should be at a hundred or 99.....
- H.M.Jr: I think you've got to make that decision tomorrow, which way you're going to go. If we have a fourth day the way it's been the last three days, and counting today - if the selling continues tomorrow, then I think you fellows have got to make up your mind whether you're going to use the open market machine.
- Eccles: But I wish like the dickens that other parts of the Administration here - we could get some cooperation from them; because now, damn it, we just can't sit here and indefinitely battle alone a thing like United States Steel did here on this price thing.
- H.M.Jr: There's no argument....
- Eccles: We can't do it. If they're going to let monopolistic practices and labor monopoly tactics continue to do

- 20 -

some of the things they are doing, damn it, it can't help but run prices up; and if they're going to do that, why in the hell should people put money in bonds.

- H.M.Jr: That's all true, Marriner, and if the President wasn't so played out, tired out, I'd bring it to his attention forcibly today or tomorrow. But knowing how physically tired he is....
- Eccles: I did yesterday.
- H.M.Jr: Well, did you get any satisfaction?
- Eccles: Well, we agreed. I mean he agreed to the general conclusions; that we couldn't - we have certain things we could do, but we are helpless to carry this thing alone. Then I brought out that the living costs were going up because we were letting stuff leave this country when we needed it here; that we ought to consider the possibility of an embargo if we have to; we ought to consider the possibility in other products of dropping the tariff if it will be effective; we ought to consider having an investigation and get the Federal Trade Commission busy after some of these fellows. Let's at least put a little fear of god in some of these industrial fellows that are doing what they are doing - making fabulous profits, running up the stock market, which naturally is going to run down the bond market here.
- H.M.Jr: Well, I'm glad we had this talk. And I'll hear from you tomorrow?
- Eccles: Yes.
- H.M.Jr: Don't forget - my train goes at six o'clock.
- Eccles: I was going to go away Sunday; I don't know whether I am now or not.
- H.M.Jr: Thanks very much for coming over.

LMS

GRAY

Paris

Dated March 12, 1937

Rec'd 3:15 p. m.

Secretary of State,
Washington.

353, March 12, 5 p. m.

From
~~FOR~~ COCHRAN.

Forwarding by mail full text of decree which appeared in JOURNAL OFFICIEL today establishing conditions for first issue of national defense loan. Following features of the loan supplement those mentioned first paragraph of my 343, March 11, 4 p. m.

One. Interest free from all taxes except income.

Two. State reserves the right to call all or part of loan after March 1, 1942.

Three. Bonds issued in either bearer or registered form in denominations of 500, 1,000, 10,000, and 100,000 francs.

Four. Interest paid every six months beginning September 1, 1937.

Five. Exchange guarantee. Exchange value of the security as to both capital and interest is guaranteed on basis of 1000 French francs to 9 pounds 5 shillings

or

LMS 2-No. 353, March 12, 5 p. m., from Paris.

or to 45 dollars 65 cents United States currency.

Six. Exchange option. Payments of the coupons will
be (END SECTION ONE)

WILSON

HPD

RECEIVED
MAR 13 1953
TREASURY DEPARTMENT
BUREAU OF PUBLIC DEBT
WASHINGTON, D. C. 20548

LMS

GRAY

Paris

Dated March 12, 1937

Rec'd 4 p. m.

Secretary of State,
Washington.

353, March 12, 5 p. m. (SECTION TWO)

made according to choice of the holder in French francs in France or in Swiss francs through the intermediary of the DIS. An announcement will be published in the Journal Official on last day before payment is due indicating the equivalent in French francs payment. A holder opting payment in French francs may choose to receive (taking the semi-annual cardecu of a 500 franc certificate as an example) (a) 11.25 French francs or (b) equivalent value in French francs of 2 shillings 1 penny based on the average official Paris prices for the three market days preceding day before the eve of payment or by some other equivalent value in French francs of 51 cents calculated on similar basis. If swiss franc is opted payments therein will be based on slight rate of exchange of Swiss franc on date of payment to yield the equivalent value of 11.25 French francs or of 2 shillings 1 penny or of 51 cents.

Franc was in strong demand today and Bank of France
acquired

LMS 2-No. 353, March 12, 5 p. m., Sec. 2, from Paris.

acquired much sterling. Market gossip is that bank took all dollars offered but not all of the sterling. Since noon today there has been much talk of the five billion loan being already heavily over-subscribed. No official statement is yet available but it is certain that the loan has gone well with both Paris and provincial capital responding

WILSON

SMS:MPL

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 353
of March 12, 1937, from the American Embassy, Paris.

Stories still appear in the press of large amounts being received from abroad for subscription to the new loan. Doubt was expressed in this morning's London financial papers as to any significant purchases by the British. I was told by a Guaranty Trust official this evening at six o'clock that not a single subscription from the United States had been received by his Bank. This Guaranty official had also checked with other bankers and learned that not a subscription from outside of France had been received by National City, nor have any subscriptions from the United States been received by Morgans or one of the leading Paris-American brokerage firms. It is believed that part of the money for subscriptions is coming from the sale of other rentes, which today are weak again. Other sources may be funds in banks or hoarded in currency in France - as yet the Bank has received no important amounts of gold - and also from French capital which has been repatriated.

END MESSAGE.

WILSON.

EA:LWW
1300788

March 12, 1937
3:20 p.m.

H.M.Jr: Hello?

George
Harrison: Hello, Henry?

H.M.Jr: Yes. George, have you got any ideas other than that we just keep on buying bonds.

H: Well, I think that you got along pretty - I don't know what has happened in the last six minutes. I know and I'm going to put it up to Marriner when he comes in here in five minutes - what's he going to do about it.

H: Well I think that we've got to bear - we've got a tremendous stake in it, of course, and we're just as interested as you are in doing the right thing.

H.M.Jr: Yes.

H: Because at the moment you haven't got any new financing and we have got a lot of bonds. We - we are as directly interested as you are in what the market does.

H.M.Jr: But right this minute you have no suggestion?

H: Right this minute - no I haven't - right this minute I don't think I would suggest increasing our portfolio. I do suggest our continuing to support it. Now it may get to the point where that won't be adequate, where you need the psychological influence of announcing an increase in the portfolio. But even that could work two ways.

H.M.Jr: Yes.

H: I mean it's pretty hard to tell whether the psychology of that would be good or bad.

H.M.Jr: Well, I'm - I'm going to talk to Marriner and when I get through, I may ask him to call the executive committee of the Open Market here tomorrow.

H: All right.

H.M.Jr: See?

H: Yes.

H.M.Jr: I may do that.

H: All right.

H.M.Jr: Thank you.

H: I think that might not be a bad idea anyway.

H.M.Jr: I may do that.

H: Yes.

H.M.Jr: Thank you.

H: All right.

9

March 12, 1937
3:25 p.m.

Operator: Go ahead.

H.M.Jr: Hello?

Burgess: Hello?

H.M.Jr: Yes.

B: Well, the ban is off -

H.M.Jr: Yes.

B: And we got by. We didn't buy a thing from 1:20 to -
till the close of the market.

H.M.Jr: Good.

B: And they're closing a little better than their lows.

H.M.Jr: Ah-ha.

B: There was a little buying came in. There was a bid on
every issue at the close -

H.M.Jr: Yes.

B: - and only one of them was our bid.

H.M.Jr: Ah-ha.

B: - so that a little natural buying came in.

H.M.Jr: Well, now, Burgess, I wish you'd spend an hour or so
or two, calling up some of the banks and some of the
people and kind of find out what it's all about for
me, will you?

B: Well, I've been doing some of that. Now the Guaranty,
for example, says that they've had no great demand for
information from their correspondents, and they think
it is just a readjustment. But I'll call up some more
of them.

H.M.Jr: I wish you'd call up some of the good boys - I mean
the bank boys and ask them what they think it is all
about.

B: Yes.

H.M.Jr: And then pass it along to me, will you?

B: Well some of them - some of the banks have been getting telegrams from all over the country, saying what's this all about -

H.M.Jr: Ah-ha.

B: - and should we sell?

H.M.Jr: Yes.

B: It's one of these waves that goes around.

H.M.Jr: Yes.

B: I think that there is some short selling.

H.M.Jr: Well, you people are much more sanguine about this thing than I am.

B: More what?

H.M.Jr: Sanguine.

B: Well, I - I don't think it's going very far.

H.M.Jr: Well, as I say, if -

B: I tell you, I was talking to Canada this afternoon. They have just the same thing up there; they have got the same thing in London; and things are levelling off gradually. It's a readjustment of this whole world movement to higher prices, armaments, and all that stuff. Well, I'll call some more and talk to you a little later, may I?

H.M.Jr: Okay; please do.

B: Very good. Goodbye.

March 12, 1937
4:20 p.m.

372

H.M.Jr: Hello?

Burgess: Hello?

H.M.Jr: Burgess?

B: Yes.

(Squealing Noise)

B: - asking about the liquidation in the Government market and whether it was time to sell or not - what they should do. They answered then that - that if they had any problem of the proportion between their holdings and that sort of thing, that is one question.

H.M.Jr: Who - who was that?

B: But if their holdings were in proper proportion why they shouldn't be nervous about it.

H.M.Jr: Who was that?

B: This was the City Bank.

H.M.Jr: Oh, I see.

B: George Rentschler.

H.M.Jr: Yes.

B: He said they were somewhat concerned about the - about commercial borrowings. He said they weren't - weren't concerned about the reserve position. He thought they had all made provision for that ahead of time, so that wasn't a factor.

H.M.Jr: Now this is a time when I don't want to talk to anybody in New York because I'm not in a very good frame of mind and when I - I haven't got my chin up and I don't want to talk to them.

B: No; well, I don't think you ought to anyway. It would look as though you were alarmed.

H.M.Jr: No; no. If he called, I wouldn't answer the telephone.

B: No; that's right. I told them I'd pass on anything they wanted to give me.

H.M.Jr: Yes.

B: Well -

H.M.Jr: Has - has Marriner called a meeting for tomorrow?

B: Yes, he has.

H.M.Jr: Good.

B: Yes.

H.M.Jr: Good.

B: Then we are coming down.

H.M.Jr: Good.

B: Now I talked to some of the other fellows around the Street, but you get the same kind of a story. There are a good many people selling, and the buying hasn't come in much yet.

H.M.Jr: I see. Well, as I understand, you fellows are going to get together, and after you've cleared there, you're going to come over and see me.

B: That's the stuff I guess - yes.

H.M.Jr: All right.

B: Yes.

H.M.Jr: Well, I'll let it ride till then, then.

B: All right, sir.

H.M.Jr: Thank you. I'll see you tomorrow.

B: Oh, say, just one point on this - on these purchases -

H.M.Jr: Yes.

B: - I think some of these you want more than you do others, and it's the same way with us. Shall we fix that up with Harris?

H.M.Jr: Well, I understand that we'll take the long terms and you're to take the intermediates.

B: Okay;yes.

H.M.Jr: Is that what - that's the way I understand you want it.

B: Yes, practically. I think these new two and a halves. I don't know whether you want more of those -

H.M.Jr: Well, yes, we do because for Postal Savings they're interested in the return.

B: We're pretty well filled up on those.

H.M.Jr: Well, that works out all right.

B: Well, I'll work it out with Harris then.

H.M.Jr: Yes - yes, you work it out with him. He's - he'll talk with Bell and work it out.

B: Very good.

H.M.Jr: And that's all right.

B: That's a detail.

H.M.Jr: Well, it's an important one but it so works out that our interests and yours supplement each other.

B: That's right - yes. Yes.

H.M.Jr: Thank you.

B: Yes. Okay.

H.M.Jr: Good night.

B: Good night, and cheer it up a little bit. This isn't so terrible.

H.M.Jr: Well, fortunately, New York and myself never get worried about the same thing at the same time.

B: That's right - yes.

H.M.Jr: Now, I'm frankly more worried about this thing than New York is.

B: Well -

H.M.Jr: And I think it's something we've got to meet - we got to we can't just meet it by parrying.

B: Well -

H.M.Jr: And - and I - I had a pretty strenuous session here with Eccles and Goldenweiser.

B: Yes- ah-ha.

H.M.Jr: And - but we ended - I think we're looking at this thing the same way, but when New York used to be worried so sick, I used to laugh about it.

B: (Laughs)

H.M.Jr: And now they're not so worried and I'm more worried.

B: Yes; yes.

H.M.Jr: If New York and I ever got worrying together at the same time, God help the country.

B: That's just the - that's - that's the situation then.

H.M.Jr: But you've got to discount my worrying by 50% for the fact that I'm very, very tired.

B: Well - well -

H.M.Jr: That combination of our refunding plus the French thing just about did me in.

B: Yes.

H.M.Jr: Plus the fact that I don't want to bother the President and I have to carry it all alone.

B: Well, you get a good night's sleep and I think this thing may be better tomorrow.

H.M.Jr: I hope so.

B: Yes.

H.M.Jr: All right.

B: All right.

H.M.Jr: Goodbye.

B: Goodbye.

376



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

March 12, 1937.

Dear Henry:

As I advised you before leaving your office this afternoon, I am sending you herewith a copy of the memorandum which I went over with the President yesterday and which he took with him.

Sincerely yours,

A handwritten signature in cursive script, which appears to be "Marriner", is written below the typed name. The signature is fluid and extends to the right with a long, sweeping tail.

Honorable Henry Morgenthau, Jr.,
Washington, D. C.

THE RISE OF PRICES AND THE PROBLEM OF MAINTAINING AN ORDERLY REVIVALThe Problem

The recovery movement is now assured and requires no further positive stimulation by government. The problem now is to maintain the orderly character of the movement that prevailed throughout 1934-36. This problem threatens to be as difficult of solution as any we have faced. The danger spots are still localized and it would be most undesirable for the monetary authorities to adopt drastic measures, which, if successful, would result in keeping 9,000,000 unemployed. What is needed is a further increase in production and employment, while at the same time preventing inflationary developments from gathering headway in particular industries. This objective can be achieved only by the proper use and coordination of all the major activities of the Government affecting business conditions. Unless this is done there is grave danger that the recovery movement will get out of hand, excessive rises in prices encouraging inventory speculation will occur, excessive growth in profits and a boom in the stock market will arise, and the cost of living will mount rapidly. If such conditions are permitted to develop another drastic slump will be inevitable within three or four years, if not before.

Source of the Danger

Why the situation is more dangerous than that confronting us in any past revival is attributable to the enormous backlog of demand for the production of durable goods accumulated in the past seven years. At the present time capital facilities in many important lines and skilled labor

is others will be deficient to handle the production of durable goods necessary to meet normal growth requirements plus accumulated deficiencies. Steel and machine tool industries are already working at capacity and this is true of some other lines. It is estimated that the amount of housing that will be necessary each year in the next five years would require an annual amount of building three times in excess of the building in 1936. In many fields, on the other hand, the available supply of labor and plant facilities is sufficient to handle a greatly increased volume of production. The grave danger is that strategically situated industries and skilled trades will capitalize on the scarcity factor to secure excessive wage and price advantages. There is already abundant evidence that this is happening. This means redistribution of real income at the expense of agriculture, unorganized workers and fixed income groups.

Recent Price Advances

From 1934 to October 1936 industrial prices exhibited a high degree of stability. From last October to the present date, however, a broad upward movement has occurred, being particularly marked in certain important fields such as iron and steel, non-ferrous metals and building materials. These movements are illustrated in the accompanying charts. Further substantial advances in non-ferrous metals have occurred within the past few days. Current advances in the prices of raw and semi-manufactured goods may be expected to reflect themselves in later advances in finished goods and the cost of living.

-5-

Factors Entering Into Price Advances

Broadly speaking, recent price advances are partly a reflection of increased raw material and labor costs and partly a reflection of unwarranted price mark-ups in highly organized industries.

(a) Raw material costs. There appears to be little reason to expect a further advance in the price of agricultural goods entering into industrial production, given more normal weather conditions. At the present price level agriculture will get satisfactory returns through an increased volume of production. There is a serious danger of further advances in the prices of those raw materials controlled by monopolistically-organized groups, both domestic and international.

(b) Labor costs. So long as an increase in hourly earnings or a shorter work week is offset by increased hourly output, labor costs per unit of output need not rise. When, however, wage rates rise more rapidly than productivity, unit costs advance. The recent broad movement in the direction of increased pay for shorter hours has outdistanced increases in labor productivity, with the result that costs have risen. A striking example of this point is the recent agreement in New York whereby plasterers are to receive \$2.00 an hour for a six-hour day, with double pay for overtime. This amounts to \$20.00 for an eight-hour day.

(c) Sellers' market. Monopolistically-organized industries are being able to capitalize on the insistent demand for their products by advancing prices out of all relation to the advance in costs. This is notably true in the case of copper and steel. Thus, in the fourth quarter of 1936 the United States Steel Corporation, after giving effect to a ten

percent advance in wages for half the quarter, and without benefit of any price advance for products sold in this period, earned \$21.7 million as contrasted with \$15.7 million in the preceding quarter and \$6.5 million in the fourth quarter of 1935. Despite this showing, prices were advanced some 6 percent effective January 1st. In connection with the recent labor agreement in steel they were advanced still further. According to Mr. Lubin's preliminary estimate, the recent wage advance in steel will add only 4 percent to the cost per unit whereas prices were advanced 12 percent. Annual gross income will increase some \$586 million while the wage bill will increase only \$125 million.

There appears to be no justification, from the point of view of costs, for a further rise, or indeed for the recent rise, in the price of non-ferrous metals. The leading copper companies were making satisfactory earnings on nine cent copper. The price has now gone to 16½ cents.

The Necessity for Governmental Action

In view of the absolute necessity of maintaining the orderly character of the upward movement, of keeping down the cost of living and of ensuring a well-balanced distribution of income between all workers, agriculture, and property owners, it is imperative that government play a positive role in preventing excessive price advances, accompanied by speculative inventory buying, and excessive increases in profits, which would make for inflation in the stock market. If profits soar, stock prices will also soar regardless of increased margin requirements. This in turn would depress bonds and raise interest rates for farmers and home builders and impair the savings of depositors and policy holders.

What Can Be Done

There is no single instrument available to cope with the situation. What is required is that the Administration should let it be known that it does not propose to allow the prospects for stability to be jeopardized by excessive and unjustifiable price advances, excessive profits and unreasonable labor demands, and that it will use all the powers of government now available to it and will request additional powers, if needed, to control this unhealthy development.

(a) Labor costs. It should be recognized that the recent shortening of the standard work week accompanied by increased hourly wage rates in important sectors of industry has resulted in increased labor costs per unit of output and has contributed to the rise in prices, thus penalizing agricultural and other workers. The establishment of a standard work week by act of Congress substantially shorter than the present work week would unquestionably tend to raise labor costs and prices. If overtime were not permitted shortages of labor in various skilled lines would be intensified. If overtime were permitted labor costs would be further raised. It is suggested, therefore, that shorter hour legislation be studied with a view to its effect on prices and shortages. Rigidity in application should be avoided. Consideration might be given to a maximum work week of forty-eight hours with an average over a year of forty hours. Special care should be taken to avoid rigidity in the case of highly seasonal industries.

The Government can exert its influence in the direction of avoiding labor shortages and excessive labor costs in other ways. Throughout much of industry individual concerns are undertaking the training of unskilled

-4-

workers. It is in building, however, where the most serious shortages threaten. If we are to secure the volume of building we must have to avoid an acute shortage in housing with the resulting excessively high rents, it is imperative that the number of skilled carpenters, electricians, masons, plumbers, etc., be increased. The Government could help -

- a. by instituting technical training on a broad scale in the CCC camps,
- b. by tapering off all public work requiring skilled labor and materials that can be postponed,
- c. by exerting pressure on other public bodies to do the same, and
- d. by attempting to induce the skilled building trades unions to relax apprenticeship and membership requirements.

(b) Price Advances resulting from a sellers' market. While the Government's power to fix prices is narrowly restricted it has various means at its disposal to restrain excessive price advances. Thus some business men will be deterred from advancing prices by the threat of tariff reductions. In connection with reducing tariff rates in trade treaties, which are generalized through the most favored nation clause, the President has wide discretionary power in effecting tariff reductions. Other price advances could be deterred by the threat of the unfavorable publicity attendant upon Department of Justice, Federal Trade Commission and Congressional investigations. The possibility of limiting the export of iron and steel and copper products for armament purposes might be explored. If the action and threats here mentioned should prove inadequate, consideration should be given to new legislation designed to cope more effectively with monopoly price policies.

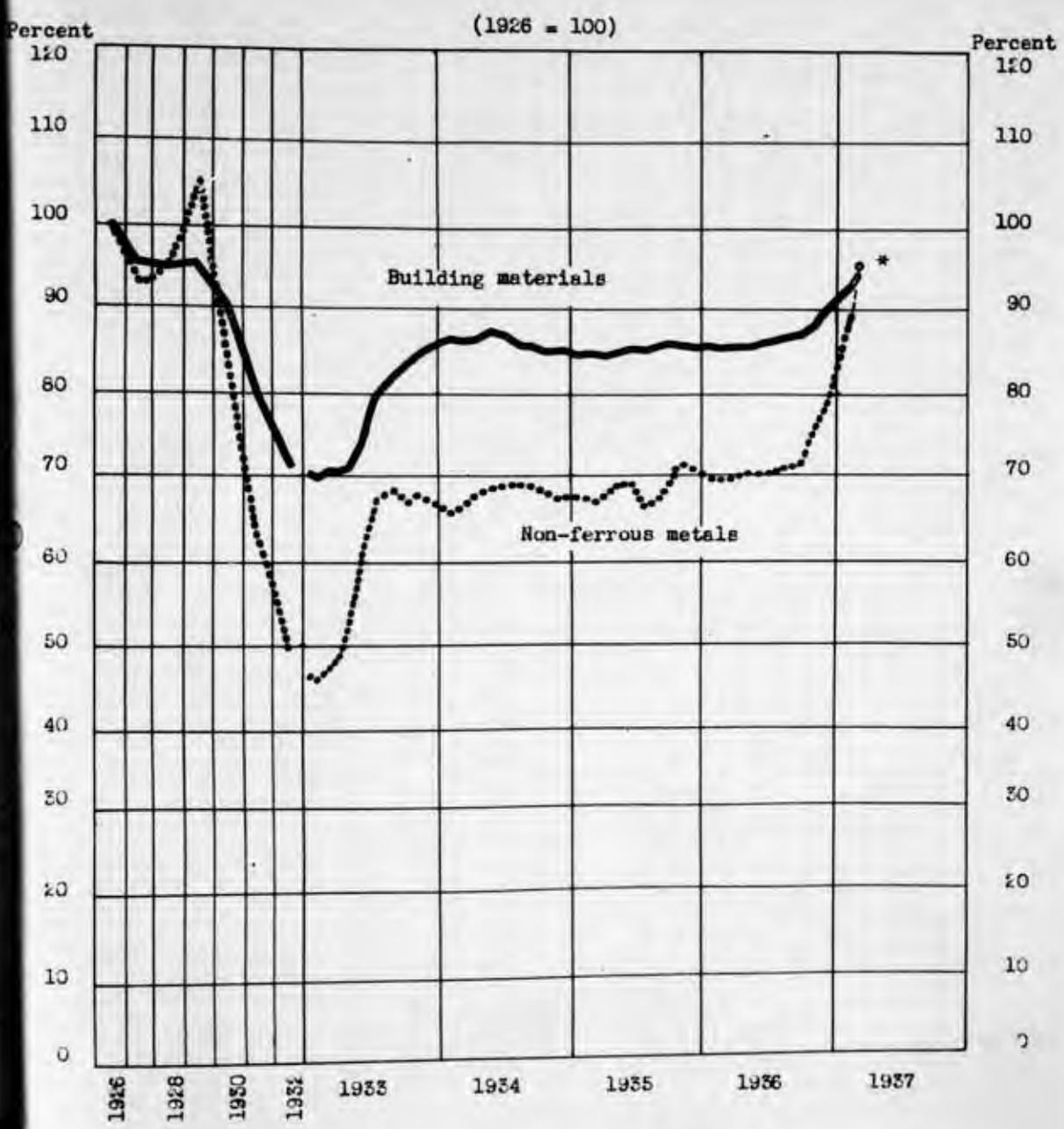
-7-

These various suggestions are designed to cope with individual situations at particular times. It is believed that by and large there is sufficient capacity and sufficient slack in the labor market to permit a greatly increased production of goods with little advance in prices. The danger now is that excessive price advances in certain basic lines such as copper and steel may generate a rise all along the line. Should a general upward price movement get under way consideration should be given to a rise in the foreign exchange value of the dollar, tariff reductions, and increased income taxes on the \$5,000-\$50,000 brackets. As a final resort, a restrictive monetary policy could be imposed.

Immediate Steps.

It would be very helpful if, through the medium of a press conference or a speech, notice could be served on industrialists that the Administration did not approve of the extent of recent price advances and proposed to study the development with a view to seeing what might be done to prevent unjustifiable price advances. Having done this the next step might be the establishment of a fact-finding and policy-making committee, which would investigate price advances in important fields and would make appropriate recommendations.

WHOLESALE PRICES OF BUILDING MATERIALS AND NON-FERROUS METALS



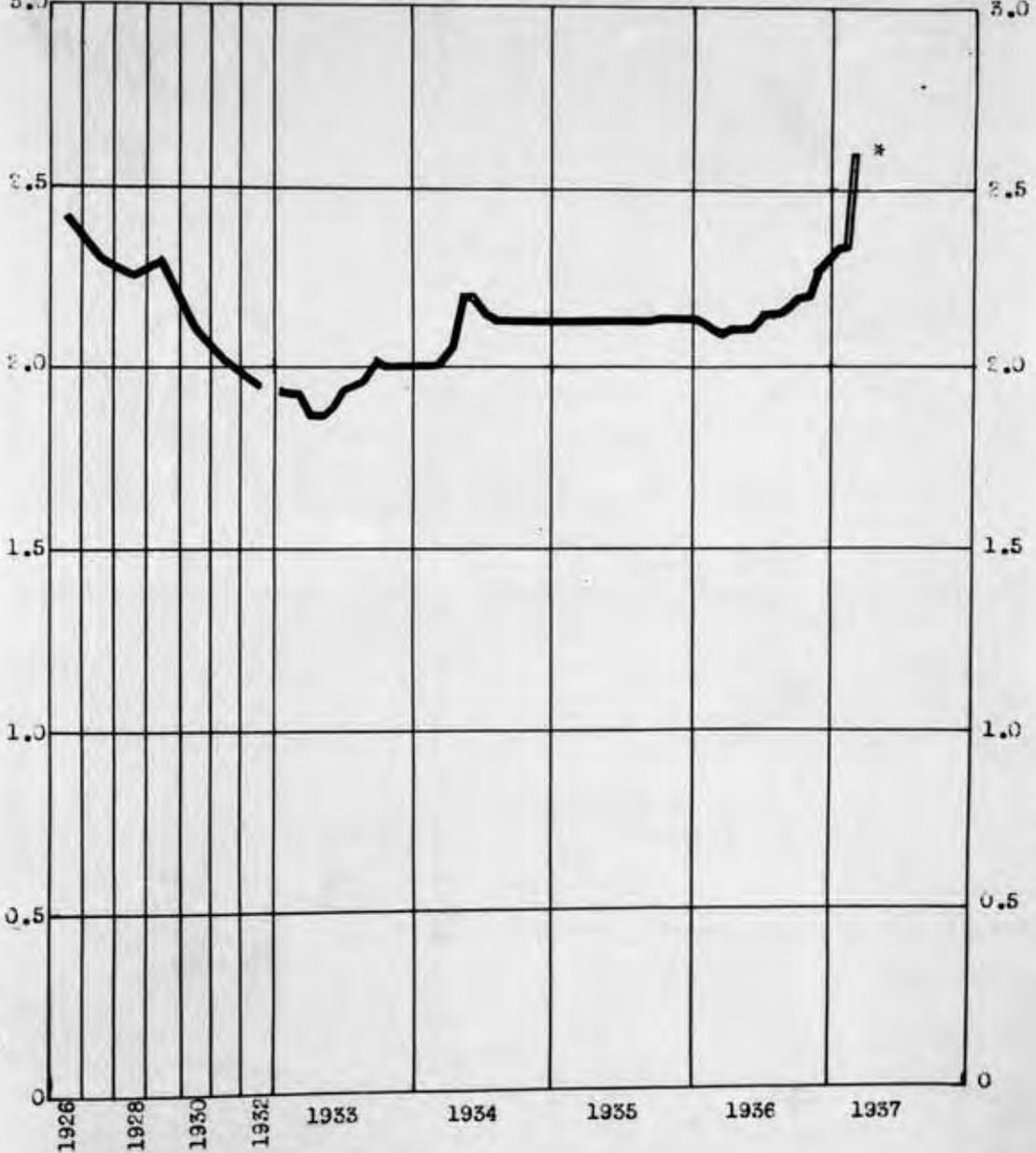
Source: Bureau of Labor Statistics

*Estimated for week ending March 6

WHOLESALE PRICES OF FINISHED STEEL PRODUCTS

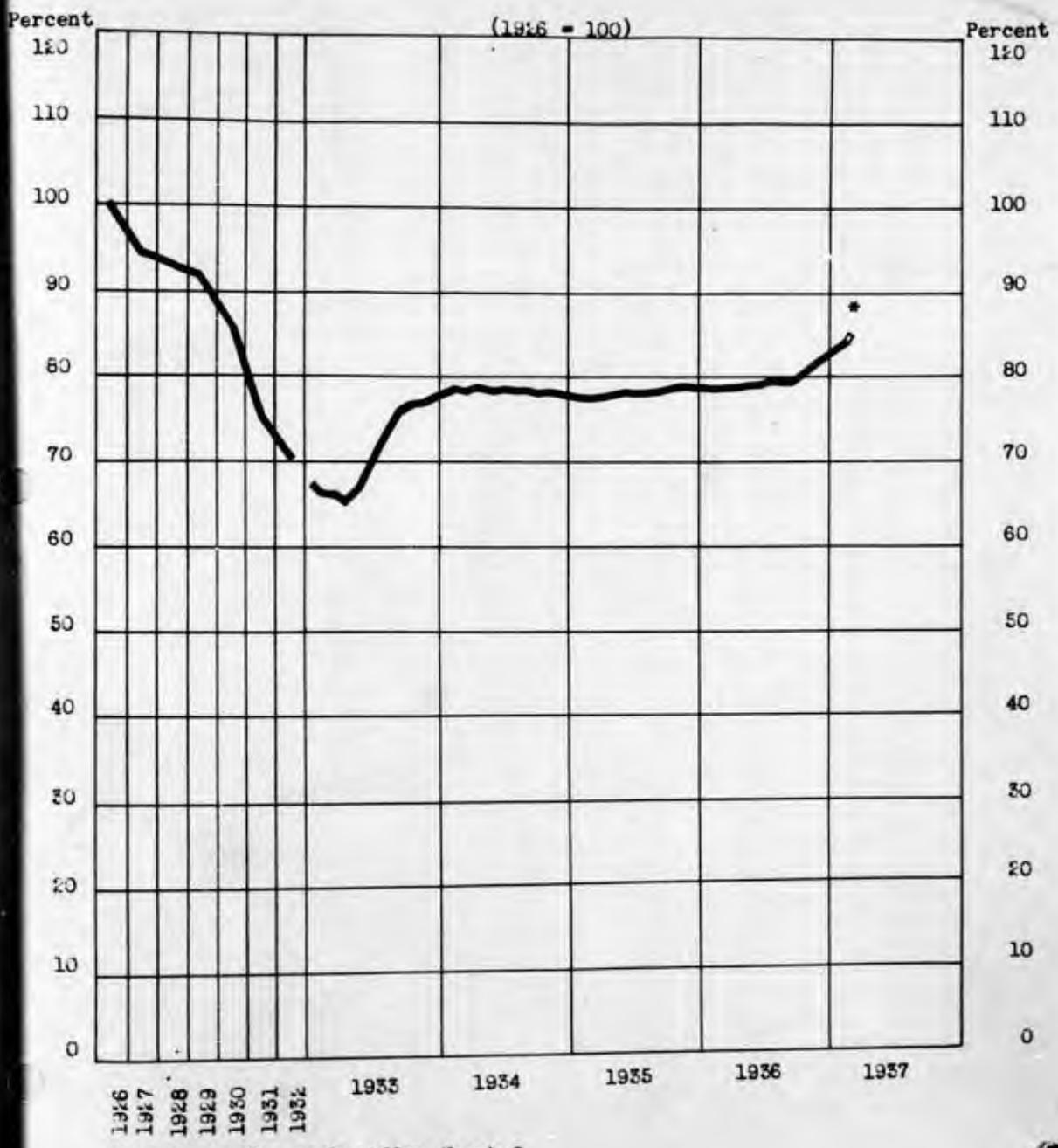
Cents
per pound
5.0

Cents
per pound
5.0



Source: Iron Age *Estimated for week ending March 15

WHOLESALE PRICES
COMMODITIES OTHER THAN FARM PRODUCTS AND FOODS



* Estimate for week ending March 6

Source: Bureau of Labor Statistics

TREASURY DEPARTMENT

387

INTER OFFICE COMMUNICATION

DATE March 12, 1937

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Possible use of gold in the inactive account and in the working balance.

1. As of March 9, 1937, gold in the inactive account amounted to \$246 millions and gold in the working balance to \$135 millions, a total of \$431 millions. Both accounts have been increasing, the former at a rapid rate and the latter rather slowly, because no disbursements, by way of deposits in the gold certificate fund of the Federal Reserve System, are being made on account of the gold held in either account.

2. The sole reason for refraining from the use of gold in these two accounts has been to avoid a consequent increase in the excess reserves of member banks. This policy was begun on December 23, 1936, when the Treasury locked up, in effect, the gold in the working balance and thereafter locked up in the inactive account subsequent acquisitions of gold. Governor Eccles, at our luncheon meeting a few days ago, declared that the Board of Governors of the Federal Reserve System would like to have some \$300 millions of excess reserves remaining after the final increase in reserve requirements on May 1; such a volume of excess reserves being deemed easily susceptible of control.

3. It appears, however, that the Board of Governors estimates that the May 1 increase in reserve requirements will reduce the volume of excess reserves to some \$500 millions rather than \$800 millions, unless the Treasury utilizes some \$300 millions of its idle gold; and Governor Eccles is in favor of such utilization. The immediate advantages to the Treasury of such utilization are obvious. The locking up of this gold has, in effect, reduced the Treasury's available cash balance by about \$430 millions, thereby adding to our borrowing requirements and our interest expense. If we used \$300 millions of this gold we could reduce our borrowings by a similar amount. In the present disturbed condition of the money markets such a reduction in Treasury borrowings should have very favorable effects.

Secretary Morgenthau - 3/12/37 - 2

4. Apart from these immediate advantages of utilizing some \$300 millions of our idle gold, there may be a further important advantage--the influence upon the bond market. Since last July, when the Board of Governors of the Federal Reserve System announced the first increase in reserve requirements, there have been a number of public statements on their part reaffirming their adherence to a policy of low long-term interest rates. These pious affirmations of policy, however, have been accompanied by actions--increased reserve requirements--having the reverse tendency--tendency, not, necessarily, effect. Likewise, the action of the Treasury in sterilizing gold imports and in retiring national bank notes from cash in the general fund has had the effect of reducing excess reserves slightly, in addition to preventing the reserves from being increased by gold imports and other acquisitions of gold.

During the last several weeks the high-grade bond market has reflected fears of an impending substantial increase in the level of long-term interest rates. These fears themselves have been operating to raise yields in all categories of high-grade bonds, and to impede the flotation and distribution of new or refunding issues of high-grade corporate bonds. The immediate policies of the Treasury and the Federal Reserve System--gold sterilization and increased reserve requirements--however well justified on other grounds, have not been of the character that would reduce such fears. Under these circumstances, action taken to increase member bank reserves moderately might provide thoroughly wholesome evidence that the previous declarations of a low interest policy were not purely verbal. Confidence in the intention and ability of the Administration to maintain low long-term interest rates might well be strengthened by such action.

5. It may be observed that the issue of \$300 millions of gold certificates for an equal amount of gold now idle, and the deposit of the certificates with the Federal Reserve System, thereby building up the Treasury's cash balance with the Federal Reserve banks, will accomplish the purposes here discussed even though no part of the additional funds is used for Government expenditures. The fact that our cash balance is increased from this source would allow us safely to reduce the level of the remainder of the cash balance.

6. We could accomplish substantially the same results by leaving untouched the \$246 millions of gold in the inactive account if we utilized the \$185 millions of gold in the working balance and thereafter issued and deposited gold certificates for the next \$115 millions of gold that we acquired through imports or otherwise.

7. The Federal Reserve System could, of course, create an equivalent increase in bank reserves by purchasing \$300 millions of Treasury bills or other securities in the market. This method would mean, in effect, that the Treasury would go into debt to the Federal Reserve banks, and would pay them interest on this debt, for the purpose of enabling the reserve banks to increase member bank reserves, at a time when the Treasury possesses the gold that could produce the same effect upon reserves without adding to the public debt. The only advantage of this method over the use of Treasury gold would be that the increased holdings of the reserve banks would give them greater power to absorb reserves subsequently. The net balance of advantages would appear to lie in favor of the Treasury use of gold.

8. It may be objected that any increase in excess reserves at this time would provide further fuel for the speculative price increases that have recently been in process. This consideration may be of some psychological importance. The spectacular price increases, however, that have recently taken place are not attributable to an expansion of bank credit, but rather to real and speculative anticipation of military requirements. The outstanding increases in commodity prices have been in copper, lead, zinc, cotton and wheat, all of which are highly important in programs of military preparation.

23 Wall Street
New York

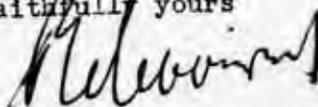
March 12, 1937

Dear Mr. Secretary:

I received your letter and the copy of your admirable memorandum on The Goals of Monetary Policy. I am very glad indeed to have it. I did so much enjoy being present with you at the Conference at Cambridge and hearing both the memorandum and your frank and free discussion of the questions presented to you at the Conference. As some one said, I doubt if any Finance Minister of any country had ever done just that sort of thing before. I doubt if many could weather it. You did a very distinguished job there. I wish there could be a record of the whole of it, which of course there cannot. As it is I am delighted that you decided to give the memorandum to the college newspapers.

I am, my dear Mr. Secretary, with great respect

Faithfully yours



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

OFFICE OF
THE SECRETARY OF THE TREASURY

391

March 12, 1937.

MEMORANDUM FOR THE SECRETARY:

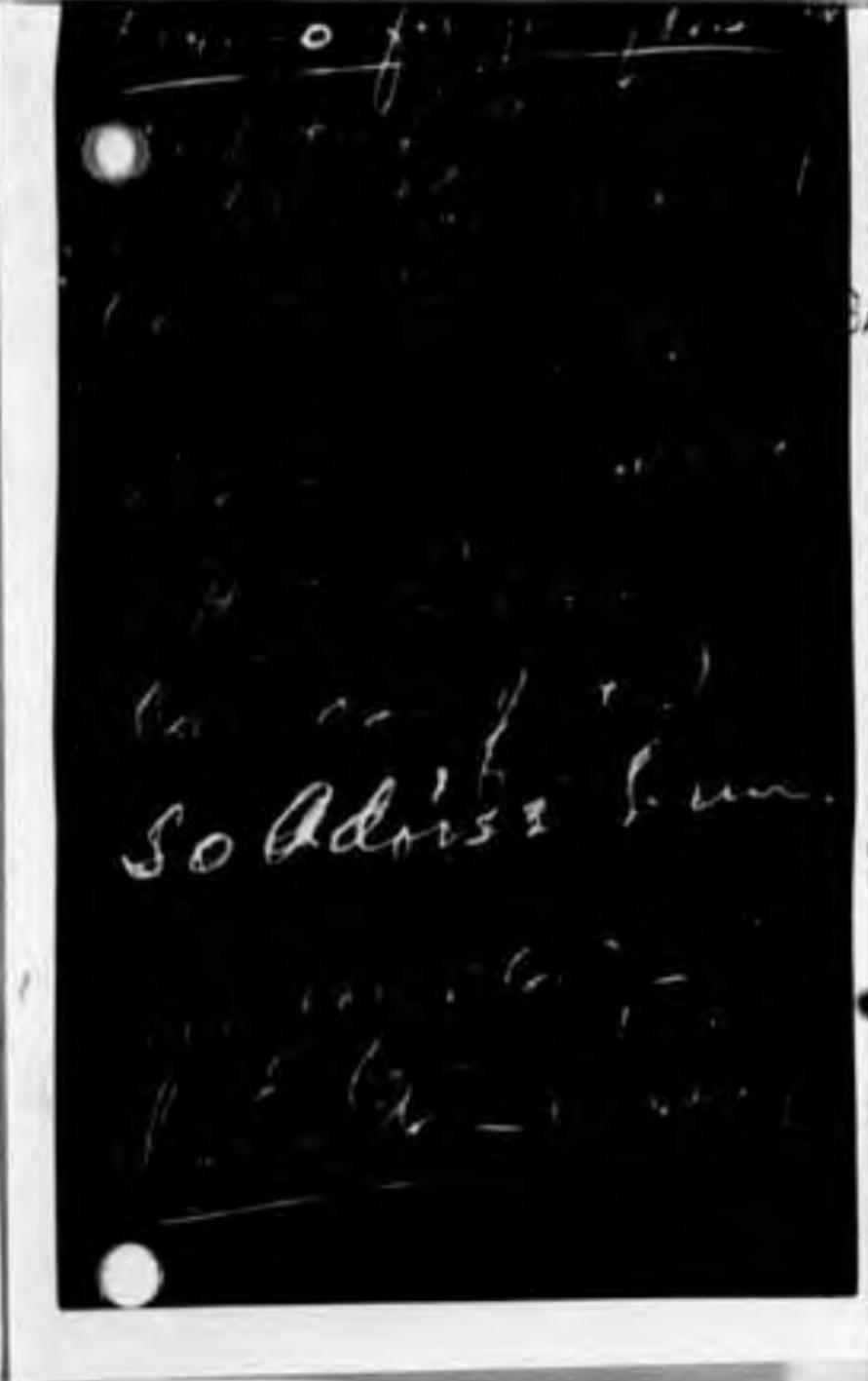
Herewith the memorandum to Mr. James Roosevelt, regarding the Federal Alcohol Administration matter, which you asked Mr. Opper and me to prepare.

This was prepared in the General Counsel's Office, and of course has Mr. Opper's approval.

GRAVES.

Verona for Jimmy
Conf. conf. 9 C. admin
nd that loss. does not
have to take any 392
action - + can
wait for govt.
+ then this can be
taken care of + I
So advise him.

no legislative
provisions - and so
no action necessary



March 11, 1937.

MEMORANDUM FOR MR. JAMES ROOSEVELT,
Administrative Assistant to the President

Confirming my conversation with you of this date, the General Counsel of the Treasury Department advises me that the President is not under the necessity of taking any action at this time with respect to the appointment of the members of the Federal Alcohol Administration under the provisions of Title V of the Liquor Tax Administration Act.

By simply withholding such action, the President will preserve the status-quo—that is to say, this will continue the Federal Alcohol Administration in its present status as a division of the Treasury Department, under Captain Alexander as Administrator, since the new set-up of the Federal Alcohol Administration as an independent establishment does not become effective until a majority of the members of the independent Administration qualify and take office.

The General Counsel advises me further that should the President decide to let matters stand as they are for the present, he will of course be left free to make changes in the status of the Federal Alcohol Administration under the general reorganization program now pending, should those provisions of that program vesting reorganization powers in the President (which the General Counsel understands are patterned after the reorganization provisions of the Economy Act of June 30, 1932, as amended), be enacted.

I concur in the General Counsel's opinion, and recommend that the appointment of the members of the Federal Alcohol Administration under Title V of the Liquor Tax Administration Act be left in abeyance pending the outcome of the general reorganization proposals, and that no action be taken at this time to secure the repeal of this Title.

This Department has no legislation pending which bears on this subject.

Secretary of the Treasury.

S.S. - CMAH

March 11, 1937.

MEMORANDUM FOR MR. JAMES ROOSEVELT,
Administrative Assistant to the President:

Confirming my conversation with you of this date, the General Counsel of the Treasury Department advises me that the President is not under the necessity of taking any action at this time with respect to the appointment of the members of the Federal Alcohol Administration under the provisions of Title V of the Liquor Tax Administration Act.

By simply withholding such action, the President will preserve the status-quo—that is to say, this will continue the Federal Alcohol Administration in its present status as a division of the Treasury Department, under Captain Alexander as Administrator, since the new set-up of the Federal Alcohol Administration as an independent establishment does not become effective until a majority of the members of the independent Administration qualify and take office.

The General Counsel advises me further that should the President decide to let matters stand as they are for the present, he will of course be left free to make changes in the status of the Federal Alcohol Administration under the general reorganization program now pending, should those provisions of that program vesting reorganization powers in the President (which the General Counsel understands are patterned after the reorganization provisions of the Economy Act of June 30, 1932, as amended), be enacted.

I concur in the General Counsel's opinion, and recommend that the appointment of the members of the Federal Alcohol Administration under Title V of the Liquor Tax Administration Act be left in abeyance pending the outcome of the general reorganization proposals, and that no action be taken at this time to secure the repeal of this Title.

This Department has no legislation pending which bears on this subject.

Secretary of the Treasury.

THE WHITE HOUSE
WASHINGTON

March 10, 1937.

Dear Mr. Secretary,

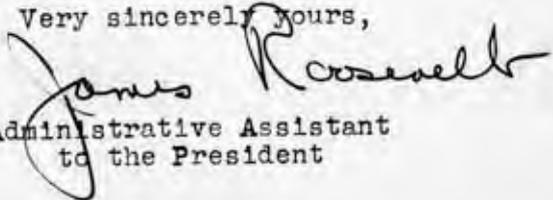
The President has asked me to send you this memorandum.

He wishes the Federal Alcohol Administration to continue on its present basis which he understands can be accomplished by the repeal of Title V of the "Liquor Tax Administration Act."

He has therefore, asked me to request that you withdraw all your proposed legislation with reference to the Federal Alcohol Administration.

Will you also have prepared to present to the proper persons in the House and Senate requests for the repeal of this legislation.

Very sincerely yours,


Administrative Assistant
to the President

P. S. I am glad to be able to send this to you before father leaves for I know nothing about it!!!!!!!!!!!!

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

MJD

SPECIAL GRAY

London

Dated March 12, 1937.

Rec'd. 5:20 p. m.

Secretary of State,
Washington.

137, March 12, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

CONFIDENTIAL.

Sir Frederick Phillips began the meeting at the British Treasury today by stating that he thought the French situation had immeasurably improved since we met a week ago; that they had now reached over five milliard and might start on the second tranche. These funds together with the improved outlook in business, tourist traffic and revenue ought to safely carry the Government through the next months. He mentioned, however, that ten milliard meant only some one hundred million pounds out of two hundred fifty million pounds budgetary deficit. As to the loan, he pointed out that the French, of course, had a right to issue this type of loan and that inasmuch as no prospectuses had yet reached London it was impossible to say what foreign exchange complications might flow from it.

Phillips said that he thought the repatriation of
French

-2- No. 137, March 12, 6 p. m. from London

French funds would take time and would not be sufficiently rapid to upset markets unless the speculators should take hold abruptly. This led to some discussions of capital movements during the course of which Phillips emphasized that it was the opinion of the British Treasury that the flow of funds from London (which included much continental money) to the United States was well past its peak; that it had been and was in their opinion a perfectly natural move arising out of the fact that security prices in this case had been too low as compared with those prevailing in London and elsewhere; that as the gap was being reduced so the flow of funds would diminish and of course, if recent events marked the turning point in the tide of French fortunes European funds would tend to be repatriated.

I referred in this connection to a phrase in a recent British Government note on rubber regarding the boom psychology beginning to develop in the United Kingdom already and Phillips said that in any case this could only apply to raw materials other than foodstuffs; even then it was difficult to label commodity prices as boom prices inasmuch as they were still in the 1930 level. Furthermore, his information was that the present prices of such metals as zinc, lead and spelter seemed thoroughly justified and were not affected by abnormal speculative activity. Tin,
on

-3- No. 137, March 12, 6 p. m. from London

on the other hand, had been recently affected by speculation and was in the process of being corrected as the last two prices indicated. He was not sure as to copper. Questioned about the effect of rising raw material prices on British economy he expressed definitely the opinion that thus far there was no cause for anxiety; that in fact the rise to date was welcomed and justified and would give no concern unless foodstuffs (which up to the present moment had been only moderately affected) should be drastically affected.

The demand for francs continues and reliable market estimates range from twenty to twenty five million sterling obtained by the French fund since beginning of week.

BINGHAM

WNC
HPD

RECEIVED
MAR 13 1937
FEDERAL RESERVE BANK
WASHINGTON, D. C.
OFFICE OF THE ASSISTANT SECRETARY

LMS

GRAY

Paris

Dated March 12, 1937

Rec'd 3:25 p. m.

Secretary of State,
Washington.

355, March 12, 7 p. m.

Embassy's telegram 346, March 11, 7 p. m.

President Lebrun last night made a broadcast appeal in favor of the loan. He stressed the vital necessity that this loan should be a success and that all discord should be abandoned for the restoration of the State's credit and national economy.

Jeanne Ney, Speaker of the Senate, is scheduled to broadcast a further appeal this evening. Herriot, Speaker of the Chamber, will do likewise on March 15th and Minister of National Defense Daladier on March 16th.

Jouhaux spoke at Calais in hopeful terms for the success of the loan adding that this would be the last chance offered to the opponents of the Government.

LE TEMPS points out that the loan is by no means the final solution to the financial problem and that the Premier will have to practice a policy of severe economy.

LE PETIT

LMS 2-No. 355, March 12, 7 p. m., from Paris.

LE PETIT BLEU and LE JOUR continues to attack Blum for refusing to make any definite statement as to his future policy

WILSON

HPD

RECEIVED
MAR 15 1935
TREASURY DEPARTMENT
Office of the
Special Agent in Charge

845
FRENCH DEFENSE LOAN

PARIS-UP- BANKS REPORTED HEAVY DEMAND FOR THE FIRST 5 000 000 FRANCS INSTALMENT OF THE NATIONAL DEFENSE LOAN PLACED ON SALE THIS MORNING - THE LIST\$ WILL CLOSE THROUGHOUT FRANCE MARCH 25

FINANCE MINISTER VINCENT AURIOL EXPRESSED CONFIDENCE THAT TODAY-S ISSUE WOULD BE COVERED QUICKLY

-0-

~~MAR 15 1937~~ MAR 12 1937

12.15
 FRENCH GOLD PRICE LOWERED

MAR 12 1937

PARIS - BANK OF FRANCE HAS LOWERED ITS BUYING PRICE FOR GOLD TO 24 358 FRANCS PER KILO FROM 24 364 FRANCS ESTABLISHED EARLIER IN THE DAY

-0-

March 12, 1937
4:40 p.m.

404

H.M.Jr: Hello?

Operator: Secretary Wallace.

H.M.Jr: Hello?

Secy.
Wallace: Hello, Henry.

H.M.Jr: Henry?

W: Yes.

H.M.Jr: I got your letter with your release for tomorrow.

W: Oh, yes.

H.M.Jr: It's in here about a half an hour. We haven't got time to go over it and give it any intelligent thought.

W: Oh.

H.M.Jr: So you better go ahead and make it without any comment from the Treasury. We - we can't work that way.

W: Yes; well I -

H.M.Jr: I mean it's a physical impossibility to send a thing over here at four o'clock - an important thing like that - and expect us to do anything about it.

W: Oh! I thought possibly you could tell by a rapid check-over whether there is anything particularly embarrassing in it or not.

H.M.Jr: No, you better go ahead and we'll just keep out of it - that's all.

W: Oh!

H.M.Jr: If we're embarrassed, why we - our blushes will be inward.

W: I see - (laughs).

H.M.Jr: I wish you luck but we - we can't on this - it's too important and we can't do anything on it, and I mean it may be all right, but if there's anything wrong, why all I can tell you is that the Treasury will keep its mouth shut.

W: Yes. Well, I didn't want to - I didn't want to be in a position of - of -

- H.M.Jr: No, it doesn't give us time enough, Henry, to be intelligent about it, and - and I hope it's all right. I'll have to leave it - trust you.
- W: Oh! Would you care to - of course, about all this does is, explain the bill is about what it does.
- H.M.JR: Well, you know what it's all about and I don't.
- W: Would you care to get together with me or with our people on the whole thing - not regard to this particularly, but with regard to the whole proposition.
- H.M.Jr: You mean sugar?
- W: Yes.
- H.M.Jr: Oh, I think we better keep out of it. I mean we've got - there's so much now - it's all - I mean they've just frankly got me dizzy. I mean - I don't know what's going to happen. I mean we got - we got a two billion dollar housing bill that's not in the budget; they're talking about a refund on the railway thing that involves seven or eight hundred million dollars; you fellows have got a - a bill for the tenant farmers, \$200,000,000 out of the budget; and with these rising prices and everything else - I frankly - I - I - I just don't know what to do.
- W: No.
- H.M.Jr: I've spent \$75,000,000 in the last three days trying to keep the bond market from going to hell, and I - I just don't know where I'm at. I - I've never been so confused in my life.
- W: No.
- H.M.Jr: And nobody seems to worry about it, and - and there's a tremendous upheaval going on financially, and I just - I don't know what the answer is.
- W: Yes.
- H.M.Jr: Everybody wants to spend money and nobody wants to save it. Now the only way we can control prices and control this thing is to stay within the President's budget, but Dannie Bell and I seem to be the only people give a damn about it.
- W: Oh!

- H.M.Jr: And I don't know what the answer is. I'm going away tomorrow night for two weeks and just recharge my battery and hope that when I come back I'll be a little bit less discouraged, but you've got to consider - this thing is moving so fast. The President sends in a budget in January and I - I can't stop this thing from just going through the ceiling.
- W: Oh!
- H.M.Jr: And you can't control crops or anything else that they're going to pay the prices for commodities. I mean any - any plan that you have I think that you lose control of it through - through the rise in prices. It's a very, very serious thing, and I'm terrifically worried about it. Maybe I'll feel better about it when I come back.
- W: I think you will, Henry, but I - I agree with you completely that there is a need for a survey of the whole situation.
- H.M.Jr: Yes, but it takes more. I mean - if we continue - if the budget is broken by \$500,000,000 or a billion dollars, nobody can stop it.
- W: Well, I don't know that the thing rests there particularly. The thing that is disturbing me particularly is the - is the relationship of these price increases to the wage increases.
- H.M.Jr: Well, the whole thing is tied up through Government spending. We control the situation here - the Federal Government does. It's got to be what I call a selective spending.
- W: Yes.
- H.M.Jr: That's what it's got to be. And, we're doing our part.
- W: You're doing plenty.
- H.M.Jr: Yes, and I'm going to tell you - I've never been so discouraged on the whole thing.
- W: Yes.
- H.M.Jr: But may be the - maybe I'll feel better about it when I come back.
- W: Well, it's going to take a - I think, Henry, that it's going to take a very broad approach from the standpoint

of, I think it's about four departments and a couple of independent agencies involved in a very big way, and that they've all got to be in on taking hold of this. Well, at least -

H.M.Jr: Oh, yes.

W: - at least two independent agencies are involved in a very big way.

H.M.Jr: Which two are those?

W: Well, of course, first and foremost, WPA.

H.M.Jr: Yes.

W: Second, Social Security.

H.M.Jr: Yes.

W: Well, I'd put in four. Third, I'd put in Stock Exchange.

H.M.Jr: Yes, and Federal Reserve.

W: And fourth, Federal Reserve.

H.M.Jr: Yes, well -

W: I think those are all - you might even put in Federal Housing.

H.M.Jr: Well, Eccles and I are in continuous touch. We work together all the time, day and night.

W: Ah-ha.

H.M.Jr: But if we didn't the picture would be worse - far worse.

W: I had a little talk with Eccles yesterday afternoon by the way.

H.M.Jr: Yes.

W: I found him very much disturbed - not in quite the same way you are, but very, very much disturbed.

H.M.Jr: Well, as I say, it may be Old Fatigue, and when I come back - but the situation is there and I - I think it takes all the brains any of us have got to meet it.

W: I don't think this sugar thing is going to have any bearing one way or the other on this -

H.M.Jr: No.

W: - broad situation you're talking about though, Henry.

H.M.Jr: Well, you - you better go ahead. You know what you're after and I hope it's all right, and when I come back why -

W: If you - if at any time you or any of your people want to sit down and talk with me about that, why just say the word.

H.M.Jr: All right.

W: All right, Henry.

H.M.Jr: Thank you.

W: Fine.

PARIS- ACCORDING TO OFFICIAL AND NON-OFFICIAL CIRCLES THE DEFENSE LOAN SUBSCRIPTIONS STARTED EXCEEDINGLY WELL- BANKS REPORTED NUMEROUS DEMANDS AND UNOFFICIALLY THE BONDS WERE QUOTED AT 15 PC PREMIUM WHICH SUBSEQUENTLY WAS REDUCED TO 7 1-2 PC- THERE IS SOME TALK OF THE BOOKS CLOSING TONIGHT ON THE ISSUE

PRESIDENT LEBRUN-S SPEECH INSISTING UPON THE NECESSITY OF A TRUCE IN PARTY QUARRELS AND POLITICAL AGITATION WITH A VIEW TO AVOIDING A GRAVE FINANCIAL DANGER CERTAINLY REFLECTS GOVERNMENTAL INSPIRATION AND IT STRUCK THE RIGHT NOTE

BRITISH CUSTOMS STATISTICS SHOWING THE IMPORTATION OF 10 000 000 PDS OF FRENCH GOLD LAST WEEK REVEALS THE TERRIFIC PRESSURE ON THE FRANC PRECEDING ANNOUNCEMENT OF THE NEW POLICY BUT THE TENDENCY NOW HAS COMPLETELY CHANGED AND AGAIN THIS MORNING THE EXCHANGE FUND WAS ABLE TO BUY LARGE QUANTITIES OF STERLING WHILE THE BANK OF FRANCE-S GOLD PRICE WAS AGAIN LOWERED TO 24 364 FRANCS WITH STERLING 106 50 AND THE DOLLAR 21 80

PUBLICATION OF THE LOAN DECREE SHOWS THAT THE STATE RESERVES THE RIGHT TO CALL IN ALL BONDS AFTER MARCH 1 1942- THUS IT CAN ESCAPE THE OBLIGATION TO RECOGNIZE FOR 60 YEARS FRANC PARITIES AGAINST STERLING AND DOLLARS AS FIXED FOR COUPONS AND REDEMPTION

ON THE BOURSE RENTES WERE STATIONARY WHILE DOMESTIC STOCKS IMPROVED AND INTERNATIONAL ISSUES WERE INCLINED TO BE WEAK- THE TONE WAS CALM BUT FIRM

MAR 12 1937

FOREIGN EXCHANGES DULL 11.57

FOREIGN EXCHANGE MARKET IS DULL WITH A MINIMUM OF BUSINESS BEING DONE - EXCHANGE TRADERS REPORT THERE IS NO INDICATION OF ANY REPATRIATION YET OF FRENCH BALANCES FROM NEW YORK IN CONNECTION WITH THE ISSUE THIS MORNING IN PARIS OF THE FIRST INSTALMENT OF THE NEW DEFENSE LOAN

THE MARKET REPORTS THAT THE OFFERING OF GUILDERS FROM SECURITY HOUSES WHICH WAS NOTICEABLE YESTERDAY IS NOT A FEATURE TODAY.

IT IS BELIEVED THAT ACTIVITY IS SMALL IN THE FOREIGN EXCHANGE MARKETS ABROAD ALSO -CABLE BUSINESS WITH LONDON AND OTHER IMPORTANT FOREIGN CENTERS SO FAR THIS MORNING HAS BEEN UNIMPORTANT WHICH IS GENERALLY A REFLECTION OF DULL CONDITIONS ABROAD

-0-

MAR 12 1937

STOCK MARKET GOSSIP 2,555

INTERNATIONAL BANKING AND BROKERAGE HOUSES EXPRESSED THEMSELVES AS PLEASED WITH THE PROGRESS OF THE FRENCH DEFENSE LOAN AND THEY BELIEVED THAT IT WOULD HAVE A FAVORABLE REACTION IN WORLD MARKETS AS AN INDICATION THAT FRENCH INTERNAL AFFAIRS WERE IN BETTER SHAPE

UNDER THE IMPETUS OF SHORT COVERING AND NEW BUYING BY SOLD-OUT BULLS THE STOCK MARKET RALLIED RATHER SHARPLY IN FINAL MINUTES OF TRADING WITH ACCELERATED ACTIVITY

MAR 12 1937

-0-

MAR 12 1937

ELLENDER PROPOSES BILL TO PROHIBIT FOREIGN
GOVERNMENT LOANS IN THIS COUNTRY

WASHN -

12.17

MAR 12 1937

ADD ELLENDER

12.35

WASHN- SEN ELLENDER OF LOUISIANA INTRODUCED
A BILL TO SPECIFICALLY PROHIBIT TRANSACTIONS
WITH ANY GOVERNMENT IN DEFAULT OF ITS OBLIGATION
-S TO THE U S- THE MEASURE IS AN AMENDMENT TO
THE JOHNSON ACT AND PROVIDES THAT IT WILL BE
UNLAWFUL WITHIN THE U S OR ANY PLACE SUBJECT TO
JURISDICTION OF UNITED STATES FOR ANY PERSON TO
PURCHASE OR SELL OR TO ACT AS THE AGENT OF
ANOTHER PERSON TO PURCHASE OR SELL OR TO ACT AS
THE AGENT FOR THE COLLECTION OF OR PAYMENT OF
INTEREST ON THE BONDS SECURITIES OR OTHER
OBLIGATIONS OF ANY FOREIGN GOVERNMENT ISSUED
AFTER APRIL 13 1934

-0-

FRENCH DEFENSE LOAN LARGELY OVERSUBSCRIBED

PARIS- IT WAS OFFICIALLY STATED THAT
THE FRENCH DEFENSE LOAN WAS LARGELY OVER-
SUBSCRIBED

12.33

-0-

MAR 12 1937

FRENCH DEFENSE LOAN

1.43 MAR 12 1937

PARIS- IT IS NOT KNOWN YET HOW FAR THE
FIRST INSTALMENT OF THE NEW FRENCH DEFENSE
LOAN HAS BEEN OVERSUBSCRIBED BUT IN AS MUCH
AS ONE BIG PARIS BRANCH BANK ALONE IS REPORTED
TO HAVE RECEIVED SUBSCRIPTIONS OF MORE THAN ONE
BILLION FRANCS IT WOULD NOT BE SURPRISING IF
TOTAL SUBSCRIPTIONS AMOUNTED TO TWICE THE AMOUNT
OFFERED

THE GOVERNMENT MAY DECIDED TO ACCEPT ALL
SUBSCRIPTIONS BY EXTENDING THE PRESENT
5 000 000 000- FRANC LIMIT OR BY IMMEDIATELY
ISSUING A SECOND INSTALMENT

THE RESULT PROVES THREE THINGS- FIRST
PATRIOTIC APPEAL IS STILL VERY POWERFUL- SECOND
THE MASS OF IDLE CAPITAL IS INEVITABLY
ATTRACTED BY BONDS WITH A MONETARY GUARANTEE
EVEN UNDER A REGIME DOMINATED BY SOCIALIST
DOCTRINES- THIRD PREMIER BLUM INSPIRES CON-

FIDENCE AND ADMIRABLY DIAGNOSED THE PSYCHOLOGY OF HIS COUNTRYMEN

FINANCIAL CIRCLES IN PARIS SEE IN THE RESULT OF THE LOAN CONFIRMATION OF THEIR OPINION THAT THE RATE OF INTEREST WAS FIXED UNDULY HIGH AND THEY POINT OUT THAT DESPITE THE COMPLICATED EXCHANGE GUARANTEE AND OPTION MACHINERY THE PUBLIC WAS QUICK TO PERCEIVE THAT IF STERLING AND THE DOLLAR APPRECIATE AGAINST THE FRANC THEY WILL RECEIVE COMPENSATION IN COUPON AND CAPITAL PAYMENTS

SOME WEAKENING OF RENTES ON THE BOURSE REFLECTS ARBITRAGE OPERATIONS DICTATED BY THE LOAN BUT THE MAXIMUM DECLINE WAS 50 CENTIMES AND THERE WAS NO LARGE BUSINESS- THIS INDICATES THAT THE BULK OF THE CAPITAL SUBSCRIBED CAME FROM HOARDED OR FORMERLY EXPORTED FUNDS

-0-

Financial Agent Bill

SENATOR ELLENDER TODAY INTRODUCED A BILL TO PROHIBIT ANY FOREIGN NATION IN DEFAULT ON OBLIGATIONS TO THE U. S. FROM ESTABLISHING A FINANCIAL AGENT IN THIS COUNTRY.

3/12--CS1232P

ADD ELLENDER, SENATE

ELLENDER PROPOSED TO AMEND THE JOHNSON ACT AS FOLLOWS:

"THAT HEREAFTER IT SHALL BE UNLAWFUL WITHIN THE UNITED STATES OR ANY PLACE SUBJECT TO THE JURISDICTION OF THE UNITED STATES FOR ANY PERSON TO PURCHASE OR SELL, OR TO ACT AS THE AGENT OF ANOTHER PERSON TO PURCHASE OR SELL, OR TO ACT AS AGENT FOR THE COLLECTION OF OR PAYMENT OF INTEREST ON, THE BONDS, SECURITIES, OR OTHER OBLIGATIONS OF ANY FOREIGN GOVERNMENT ISSUED AFTER APRIL 13, 1934, OR TO MAKE ANY LOAN TO SUCH FOREIGN GOVERNMENT, WHILE SUCH FOREIGN GOVERNMENT IS IN DEFAULT IN THE PAYMENT OF ITS OBLIGATIONS, OR ANY PART THEREOF, TO THE GOVERNMENT OF THE UNITED STATES."

3/12--CS1242P

French loan

PARIS.--BANKS REPORTED HEAVY DEMAND TODAY FOR THE FIRST
5,000,000,000 (\$229,150,000) INSTALLMENT OF THE NATIONAL DEFENSE
LOAN, PLACED ON SALE THIS MORNING.

THE LISTS WILL CLOSE THROUGHOUT FRANCE MARCH 25.

3/12--R841A

French Loan

PARIS--DEMAND FOR THE BONDS OF THE FIRST SECTION OF THE FRENCH DEFENSE LOAN AMOUNTING TO 5,000,000,000 FRANCS (\$299,150,000) WAS SUFFICIENT TO COVER ALMOST THE WHOLE ISSUE, IT WAS LEARNED FROM AUTHORITATIVE SOURCES.

FINANCIAL QUARTERS SAID THE BOOKS MIGHT BE CLOSED ON THE ISSUE THIS EVENING INSTEAD OF MARCH 23, THE DATE SET WHEN THE OFFERING WAS FORMALLY LAUNCHED.

3/12--CS102P