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March 13, 1937
9:30 a.m.

H.M.Jr: Hello, Jeff, how are you?
T.J.
Coolidge: I am very well and how are you, Henry?

H.M.Jr: I am just about ready to go to Sea Island. If you don't mind, I would like to have this a one-way conversation. What do you think about the Government bond market and could you interpret what has happened in the Government bond market for me?

C: Yes, Henry. I think that for some reason, probably the thought of short-time money rates. We had a big break in the corporate bonds and in the state bonds, -

H.M.Jr: Yes.

C: - tax exempts.

H.M.Jr: Yes.

C: And I think the Government market is now following their gun.

H.M.Jr: Any gossip up there that you could pass along to me?

C: I have had very little, indeed. The - the - let me think now - I had a talk yesterday with Mr. Parker, who travels around.

H.M.Jr: Yes.

C: It's that Standard Statistics, you know.

H.M.Jr: Ah-ha.

C: And he felt that we were nearing the end of the very cheap money - that we'd have temporary money worth something inside of eight or twelve months.

H.M.Jr: Ah-ha.

C: And that that feeling was depressing Government bond - general bond prices, -

H.M.Jr: Ah-ha.

C: But I think he felt that it is being rather overdone.

H.M.Jr: Do you - do you mind my asking how you feel about it yourself?

C: Have we been doing -

H.M.Jr: No, not what you - no, just how you feel personally.

C: Well, I think - I think the best way to say that is - is what I have been doing in the bank.

H.M.Jr: What's that, Jeff?

C: And we've got about \$60,000,000 bonds as distinct from shorter- shorter securities, -

H.M.Jr: Ah-ha.

C: - and they're holding on to them.

H.M.Jr: I see.

C: A few months ago we sold a fair amount of, say from four to eight years, -

H.M.Jr: Yes.

C: - and bought somewhat longer ones, but in smaller quantity.

H.M.Jr: I see.

C: And we've now - we're now in a position where we are going to sit on those -

H.M.Jr: Ah-ha.

C: - and the rest of our Government money is - another, say, seventy-five or eighty-five million, is - is quite short. We're buying a lot of these bills.

H.M.Jr: I see. Well, then you're not particularly disturbed?

C: No; no - not - in fact, I think we've done about right here. I think we're - we're going to have a good bunch and we're going to sit with them, certainly until we see the - the short-time money rates really begin to go up.

H.M.Jr: Ah-ha. Well, it was my good fortune that we got through our conversion 96% or better, so I can afford to be fairly -

C: Yes.

H.M.Jr: - philosophical about it all.

C: I - personally, my hunch is this - this drop was due to come and it came first in the tax exempts and corporates and now it is coming in the Treasuries.

H.M.Jr: Well, I wanted - I wanted - I mean there are so few people that I feel that I can call up that I have confidence in that I thought you were one of two that I could.

C: Yes, well, it's - I'm - I'm glad you called up, Henry. I appreciate it.

H.M.Jr: All right, Jeff. You're well?

C: Couldn't be better.

H.M.Jr: Pardon me?

C: You aren't coming up this way again, are you? We missed you before; we were down South.

H.M.Jr: Yes, I was sorry. Burgess is sitting here and he says to send you his best regards.

C: Thank you.

H.M.Jr: All right.

C: Goodbye.

H.M.Jr: Goodbye.

C: Goodbye.

March 13, 1937
9:45 a.m.

H.M.Jr: Treasury?

Operator: Yes

H.M.Jr: See if you can get Mr. Tom K. Smith of St. Louis,
either at his home -

O: Yes.

H.M.Jr: - or at the Boatmen's National Bank. With the differ-
ence in time, he may be home.

O: Yes.

H.M.Jr: Tom K. Smith.

O: All right.

H.M.Jr: Official.

O: Yes.

(Pause)

H.M.Jr: Hello?

Operator: Mr. Smith.

Tom K.

Smith: Hello, Henry?

H.M.Jr: How are you, Tom?

S: Fine.

H.M.Jr: Good for you. Did I get you at home?

S: Yes, I'm just ready to go down town.

H.M.Jr: Had your coffee?

S: Yes.

H.M.Jr: Good for you. A one-way conversation - how do you
interpret what's happened the - this past week in
the Government bond market?

S: Oh, just a reaction to a topic that's been - that
people have been waiting for for a long time.

H.M.Jr: Ah-ha. Has there been any gossip around or any
stories coming out of Washington that has bothered
the people out your way?

S: Well, nothing except the Supreme Court. Of course, that hasn't anything to do with the financing.

H.M.Jr: No, but I mean anything financial.

S: No; no.

H.M.Jr: No gossip stories.

S: It was just too high, Henry.

H.M.Jr: What?

S: Just that the market was too high.

H.M.Jr: Well, I mean how did it all happen to come just after we get through our conversion?

S: Well, I guess they had to have a - well, I'll tell you - I'll tell you my reaction to it, and then you can put me down as a normal person.

H.M.Jr: Perfectly normal.

S: We sold our bonds sixty days ago.

H.M.Jr: You did?

S: Of course, I'm in the bank business to make money -

H.M.Jr: Yes.

S: - and just on - just looking at the market, I sold out,

H.M.Jr: Ah-ha.

S: - thinking the market was going to go down.

H.M.Jr: Ah-ha.

S: No reason in the world except that I thought the interest rate was too low.

H.M.Jr: Ah-ha.

S: Now that - that's about all I can say.

H.M.Jr: I see. Well, of course, I - I can be in a very philosophical mood, having gotten 96% conversion, and I can sit back and sort of take it easy, but I only got

one or two friends I can call on and you're one of them.

S: Well, I think that - the way I feel about it is - I've got a little cold - can you understand me?

H.M.Jr: I understand you perfectly.

S: The thing will settle down on a lower base and then we'll go along - sail along just as happily as we were before.

H.M.Jr: I see. Well, I wanted to get how you felt about it personally.

S: How are you, Henry?

H.M.Jr: Oh, I'm all right. I'm going to get away tonight for a vacation.

S: That's fine. How is Mrs. Morgenthau?

H.M.Jr: She's fine, thank you. And your wife?

S: Yes - all right.

H.M.Jr: Well, take care of yourself.

S: Okay, boy. Goodbye. I'll call you.

H.M.Jr: Thank you. I'm for you.

S: All right, Henry.

H.M.Jr: All right.

S: Bye-bye.

MEETING ON GOVERNMENT BOND
MARKET DECLINE

March 13, 1937
10:15 a.m.

Present: Mr. Gaston
Mr. Taylor
Mr. Seltzer
Mr. Murphy
Mr. Daggett
Mr. Haas
Mr. Lochhead
Mr. Bell

H.M.Jr: I asked Haas to get together his crowd and I'd like to be talked to.

Haas: We have discussed the whole situation. At the beginning, there was general agreement that something should be done. Then, as you look over the available instruments, we had some difficulty in deciding just which instrument might be used. Some of us thought that it would be very difficult to explain the Treasury holding inactive gold which has raised the volume of public debt - which has increased the interest charge, and at the same time have the Federal Reserve buy these securities, which means the Government is going into debt to the Federal Reserve, in addition to the cost which is now - in addition to what it is now costing the Treasury to sterilize gold. But then, on the other hand, there was some feeling that the psychological effect of the Reserve Board buying may be much greater than the Treasury just releasing some inactive gold. There is also a feeling expressed that if the Treasury alone took action some people on the outside might think that we were just frightened over the Treasury bonds rather than the general economic situation and the effect on easy money in general.

So we have come to this conclusion: That if the Reserve Board open market committee and the Secretary of the Treasury agree that they were to use all instruments available to maintain easy long-term money conditions, and that at this time they were releasing a definite amount of inactive gold - three hundred or a hundred million or whatever the figure happens to be - and if the Federal Reserve open market committee had authorized the

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open market operation, that those two things - and actually let the Federal Reserve Board do some operations so as to change that figure, we felt - that was our final conclusion. We think that would be the best thing, taking everything into consideration, the psychological aspect and also the other financial cost aspect.

H.M.Jr: State your conclusions again, George.

Haas: That the public would be informed that it was a joint conclusion of the Reserve Board and the Treasury that they were to utilize all instruments available to them to maintain long-term easy money rates, because of the advantageous effect that this would have on our national economy; that at this time the Treasury was releasing a definite amount of its inactive gold, which would increase excess reserves, and the open market committee had authorized the Reserve authorities to engage in open market operations.

H.M.Jr: You would do both the things?

Haas: Do both. But if you just do the open market and not take this gold, you might have - logically you would have a very difficult time explaining it. You would have to explain it only on psychological grounds, and in the shop here it is easy enough to explain but on the outside it would be rather difficult.

Lochhead: The market is opening up quiet.

But a question: When you (Haas) say - you say that we do all this to protect long-term money rates. I'd like to say money rates instead of just long term. It is understood the Federal Reserve Board will go into the open market and protect the long terms even though at the expense of the short-term rates. I'd keep away from talking about long-term rates; it's money rates in general.

Haas: I agree.

H.M.Jr: Did you (Taylor) see what our boy friend did last night? Herbert told me about it.

Taylor: No, I didn't know about that.

H.M.Jr: I called up Marriner and warned him. I said, "If you don't advise - just tell me as a matter of friendship," and so he gave me definitely to understand that he hadn't seen anybody and he was just drawing on his imagination.

Gaston: Yes. Elliot called me up to tell me he hadn't been able to get hold of Ted Goldsmith, and I repeated what Ted Goldsmith had said he was saying in his message and he said, "That's all right except he didn't have authority to say that Eccles said it." But he said Don Woodward and Ted Goldsmith did see Eccles on Thursday, which I already knew, but said that nobody had seen him yesterday afternoon, which I do not believe.

(Harris comes in.)

H.M.Jr: What's the opening on the market?

Harris: There's no change - very quiet. The two and a halves sold at nine, eleven and twelve. There is some of the comments by some of the investment services (handing clipping to H.M.Jr.).

H.M.Jr: All right. Anything that has to do with this situation, send it in to me, will you?

Harris: All right, sir.

(Harris goes out.)

H.M.Jr: You (Daggett) talk a little bit on trend of commodity prices.

Daggett: It seems to me that this last upturn in commodity prices is due almost entirely to a sudden buying move, which is largely speculative, based on the publication of these re-armament programs. Now, I don't know to what extent actual buying has been done in commodities, but there seems a good reason for thinking that under the re-armament program a considerable amount of raw materials will be bought.

One reason for thinking that is that under - in the past when a foreign Government expected a war, they could build up a gold reserve in order to buy materials when they were needed; but at the present,

with the possibility of export embargoes on materials and the possibility of submarine blockades, they have considered it too hazardous to depend on their former method. Therefore, there is likely to be a tendency to actually buy the materials and store them in their own territory.

I have no basis at all for knowing how much buying has actually been done. We do know that there has been heavy buying of materials like steel and iron scrap. There has been heavy buying of copper and some other products. But the sharp upturn in metal products lately, and in cotton and a few other commodities seems to me, as a personal opinion, to have been more speculation than actual buying.

H.M.Jr: Does that mean futures rather than

Daggett: Futures rather than spots, and spots in some cases.

There seems to be a corner in tin in Great Britain. The American Metal Market mentions definite manipulation in the tin market; that is, as one evidence, the stocks of tin in Great Britain are said to have been reduced about 75% in the past several weeks, which is taken as a manipulative movement.

The action of the commodity markets lately, in my opinion, shows signs of an overbought condition. I have been following individual commodities rather closely lately and it seems to me that a reaction can be expected from present levels.

I see no definite signs of inflation in the rise either last fall or the rise this spring. They can be explained rather clearly on reduced supplies and increased industrial demand and war buying. By far the larger number of commodities that have gone out have been commodities used as war materials.

Within a few months there will be increased supplies of a number of commodities coming onto the market. I might say that in case of steel, the opening of navigation on the Lakes will release nearly half a million tons of steel scrap. In case of tin, which has had one of the sharpest rises lately, it depends only, as I understand, on the action of the International Tin Committee to release tin from the Dutch East Indies and other sources. We know that in case of cotton and wheat it is only about a matter of six months before additional supplies will be available. For that reason, I can't see a continuation of this general commodity rise through 1937 except on the basis of war preparations.

H.M.Jr: Well, do you know how the people over in Agriculture feel?

Daggett: I haven't talked to them lately.

H.M.Jr: Do you (Haas) know how - who is their senior economist over there?

Haas: Most of that work is done in the Bureau of Agricultural Economics. Isn't that right, Daggett?

Daggett: Yes.

Haas: Black is the chief of the Bureau of Agricultural Economics. And in the AAA, they have different groups - a man named Myers on cotton and another man on corn and grains, and so on.

H.M.Jr: Well, could you put it up against those people?

Haas: Oh, yes, Daggett knows them all well.

H.M.Jr: Because this is the position that you have been taking for the last month or so.

Daggett: Yes.

H.M.Jr: Let me ask you this. This is the position that Eccles takes: That you can't expect from monetary

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action to control this inflationary move - this rise in prices.

So let's look at it from the other angle. How much, beginning with last December, do you fellows think - I mean when they announced the last week in November that they were going to go ahead and increase these reserve requirements - I mean how much do you fellows think that what's taken place since then is due to action of the Federal Reserve as it affects the money market?

Seltzer:

I think very definitely that it is a combination of the Federal Reserve Board action, the discussion of hot money and the Treasury policy of sterilizing gold imports, because the market was told: "Here, reserve requirements are going to be increased and the Treasury is going to see that no further reserves come into the banking system, so the whole future seems to be a one-way future." Interest rates could go up but they couldn't go down. I think, too, that it was very unfortunate that all these actions were taken in such a short space of time. Last July the Federal Reserve Board made their first increase to take effect a month later. Within six months, there is an official leak that there will be a further increase in reserve requirements. At the same time, the Treasury sterilizes gold imports. Then the Federal Reserve notice comes out that it goes the full 50% increase - the remaining 50. Here within a space of relatively few months the Administration has taken all the steps immediately open to it to tighten the money situation, instead of doing this more gradually.

I think it is exceedingly important - more important than the stopping of a speculative price rise, that we maintain low long-term interest rates. Your utility refundings, which were going ahead in very good volume, are only about half completed. Your railroad bond refundings haven't hardly begun. And the Treasury, of course, has its own very healthy program of refunding to do. Low long-term interest rates are particularly important for the public utility enterprises, because their rates are fixed,

their costs are flexible, and their chief source of savings consists of low interest rates.

Then, if we want to get anywhere on a housing development, we likewise need low interest rates.

I am not afraid of this speculative price rise being further stimulated by easing the credit situation. I don't think it is dependent a whole lot on the credit situation.

H.M.Jr: Well, I was dumbfounded this morning to have Burgess sit here and say to me, "Of course, we couldn't have done what we have done without a corresponding tightening in long-term interest rates." He said it right here. I told him what Chairman Eccles said about the way he thought on this thing, and he said, "I can't help what Chairman Eccles said I said." He said you couldn't help but have a tightening of long-term interest rates due to the action of the Federal Reserve Board. Am I

Lochhead: Yes, that's what we're trying to check.

H.M.Jr: Isn't that what he said word for word?

Lochhead: Word for word.

I wanted to ask when I questioned George - when he said we have to have low long-term rates I wanted to - you (Seltzer) repeat "long-term." Do you think that you can continue long-term money rates at a low level while having sharp increases in short-term rates?

Seltzer: Not a sharp increase. I think you can have some increase in short rates, and very frequently in the past you have had short rates bob way above long-term rates, and then below without affecting long-term rates.

Lochhead: But you see, we have had quite a long campaign and talk of higher short-term money rates, and I think that has had a definite effect on the long-term market.

Seltzer: I do, too.

H.M.Jr: Burgess went further. He said you can't have the effect on short-term money rates without having a corresponding effect on long-term money rates.

Seltzer: Well, "corresponding" wouldn't be the right word there.

H.M.Jr: Well, that's what he said.

Seltzer: That is, in this situation, where your short rates have been abnormally low in relation to the long rates.

H.M.Jr: No, but the thing that surprised me was for Burgess to sit here and say perfectly calmly, "Of course, the action the Federal Reserve Board has taken will have an effect of higher rates on long-term securities."

(Bell comes in.)

He said of course it would, no argument about it.

Bell: Action they are taking now, or

H.M.Jr: have taken.

Bell: You mean yesterday?

H.M.Jr: No, when they announced this thing in December.

Bell: Oh.

H.M.Jr: Well, this is my reaction after sleeping on this thing all night. I don't think there is any question that this tightening in money rates has been hastened and aggravated due to the action of the Federal Reserve Board. The charts show that, don't they?

Murphy: Yes, although I notice here on the longest term bonds, the two and seven-eighths of fifty-five - sixty, they actually made their high in February; at the time of the leak, you will notice, there is no break at all; the market took it perfectly calmly. It actually made a new high in February, although the highest in November, December and January and February are almost identical. Now, the shorter term bonds were considerably weaker.

This index, which includes all bonds for the call dates of eight years or more, shows a consistent downward trend, while the long bonds have held their own. But even this wasn't affected at the time of the leak. You might argue that it was only as the market

Seltzer: It was a couple weeks before the increase was actually to go into effect that the thing began to happen in a big way.

H.M.Jr: Now I want you to listen to this. It is my position that I ought to take, and I want to check. Now listen. Talking to the Federal Reserve Board open market committee: "We feel that this situation has been largely brought around by you people. Now, what are you going to do about it? It is up to you. As far as we are concerned on our own financing, we have just passed the period; we have had a 96% conversion; very nice. We are very philosophical. We have nothing to worry about. We can sit back - buy with you or not. But this question of a tightening of money rates is your responsibility. Now, what are you going to do about it?" Just keep saying that - just put it squarely on them.

Seltzer: Now, suppose they suggest you use your idle gold.

H.M.Jr: Pardon me?

Seltzer: Suppose they suggest you use some of your idle gold.

H.M.Jr: If they suggest that, I'm willing to do that.

Seltzer: Suppose they say, "Well, we'll buy some open market securities. We don't want you to use your idle gold."

H.M.Jr: Well, I'll do that.

Seltzer: You want them to run the show.

H.M.Jr: They've made their bed, they've made all the speeches; all the publicity this morning is what the Federal Reserve Board will or won't do; Eccles has said repeatedly that he is in favor of keeping

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long-term rates low. I have made no speeches. Now, let's see what they can do about it. Now, if over a period of another - I don't know how long - week or month - they don't do anything about it, then I will step in; but I don't feel I have any right to step in until I give them a chance to show what they are willing to do. Now, if this thing continues and they sit back and they say, "Well, what are you worried about - a point and a half?" But let's say it's three or four points and they don't do anything; then I'll step in. But I feel that it's too quick to step in - too soon, see? But I'm open - I mean I want a general free discussion.

Seltzer:

Well, I feel this way about it. This situation at present has the earmarks of being a temporary situation. I don't believe that a fundamental turn in long-term rates has come. I think there are too many powerful factors on the other side operating for low interest rates. But if you get a temporary situation that is allowed to run out of hand, you constantly confirm the fears of people who are selling, and you can turn such a temporary situation into a more permanent one.

H.M.Jr:

It's all true, but Now I checked with - I told you there is only two fellows I could talk to who wouldn't misunderstand us; I called up Jeff Coolidge today and talked to him, and he's not worried at all. He says their bank - they haven't changed their position; they've got their long-term Governments and they're not going to change. He thinks it is just a temporary thing.

I talked to Tom Smith. Tom Smith says that sixty days ago he sold out a lot of his Governments because he felt that this thing was coming, so now he's just sitting by and watching it. But he just thinks this is a temporary thing and he's not worried.

Now there is one fellow in Boston, one in St. Louis. Both have large portfolios, they get around, and neither of them are worried. And Burgess in New York - he says there's nothing to worry about. I've got nothing to worry about, he says. Well,

if everybody feels that there's nothing to worry about, that I should pound the desk this morning and this afternoon and demand that they should do something and, "If you don't, I'll do it on Monday" - I don't think the situation is bad enough for me to take those steps, because - I mean a definite break between the Treasury and the Federal Reserve. I mean I don't think the situation is severe enough, because then I'll leave myself open to all kinds of things.

I mean we talked to Eccles about the gold and the thing that worries Eccles is that if he left us release some gold now it will mean more inflation, and it also means that I am saying that he was wrong. And that's what I say - it must not be repeated outside of this room - I think, from everything that's happened last night - you (Lochhead) check with me - I think it is like a Chinese kidnapping. They are much more interested right now in face saving than they are in anything else. And all these stories, every one which was given out either by Eccles or Elliot Thurston last night, plus that letter - I mean it's all face saving stuff, see, and I think we ought to sit back and give them a chance to save their faces.

The important thing is that the Federal Reserve Board and the Treasury should move in the same direction. I mean I think if we had a break - I think that would scare people; and this morning I am much calmer than I was. But I'd like to put the responsibility on those boys and let's see what they do. They're crying for it and they want it, so why not give them a chance? I mean that is - after sleeping over it and thinking over it - the way I feel now.

If any - I'd like to know if anybody in the room is alarmed and says that this morning I'm taking the thing too calmly.

Gaston:

I'd like to ask if you'd feel the same way if the two and a halves go below par. Would you want to say to the Federal Reserve people, "Now this is the way I feel today, but if during the day the two and a halves would drop below par, I might say something different to you."

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Taylor: That's all part of this, I think.

H.M.Jr: No, I wouldn't have any - I wouldn't have to say anything to them because they'd hear from the country, see?

Gaston: Yes.

Bell: I think that's one thing to make them take definite action - is the two and a halves going below par.

Taylor: They are watching that just as closely or more so than we are.

H.M.Jr: I wouldn't want to say that. I mean - just what I said to Burgess; I said, "You fellows created the situation, it's up to you to correct it."

Gaston: There's another thing about the gold - a hundred eighty-five million in the free gold that could be put out without any reversal of our policy about the inactive gold; we still got that nest egg in the free gold.

Bell: They both have the same effect.

Gaston: They both have the same effect but theoretically on the balance sheet you're not disturbing your inactive gold.

Bell: In a sense, they are both inactive.

Murphy: But in a sense, your face is saved; nobody loses faith by spending a hundred and eighty-five million.

H.M.Jr: I think if the Treasury moves, we've got to go openly and above board. I don't want any trickery or anything like that.

Gaston: That's right. After all you're just holding that free gold static as it was and sterilizing the gold coming in; you're not sterilizing the other if you're using the free gold.

Taylor: That's all part of the formula which will be produced as to the Chinese kidnapping.

- 13 -

- H.M.Jr: I mean - I come back; is anybody more disturbed over this than I am - I mean to say to me, "Well, now, you can't afford to wait"?
- Seltzer: The only thing that bothers me is that if you put it altogether up to the Reserve people without giving them any considerations in favor of your using gold rather than their using open market purchases, I don't think they get a fair case.
- H.M.Jr: Listen, we had a "knock-down, drag-out" fight here that you haven't seen the equal of - I don't know that we ever had anything like it - yesterday for about an hour. You (Haas) were here. Did we leave anything to anybody's doubt? Ask George.
- Haas: I don't think so.
- H.M.Jr: I mean there were no doubts left. And don't forget, the important thing is that when I consistently insisted that Goldenweiser be given a chance to say what he thinks, he agreed with the Treasury, see - I mean that they should increase their portfolio. I mean they didn't want to give him a chance to talk, but when you gave him a chance to talk, there was no question.
- Seltzer: Do you prefer that to the Treasury use of inactive gold?
- H.M.Jr: If it were my decision - see, I read George's memorandum very carefully last night which had your (Seltzer) name on it. If it was my decision, I would release inactive gold in blocks of a hundred million until it had the effect. I'd test the thing, see? But, figuring that here is an instrument very delicate, release it in blocks of fifty to a hundred million dollars, see - that's what I would do.
- But if you will remember what we went through on the sterilization of gold
- They feel that that would be the Treasury's saving the bond market, correcting the mistakes that the Federal Reserve made; they don't want that, see?

I mean we would be correcting, if we were successful, in the mind of the public, a mistake that the Federal Reserve Board made. Now, I think - don't forget, this is Chinese now, see?

Seltzer: Incidentally though, we'd be helping ourselves very substantially.

H.M.Jr: All true, but it didn't help - whether General Chiang Kai-shek kidnapped himself or not, we don't yet know, see, and we may have to let Eccles kidnap himself.

Seltzer: We are not running under rules of Chinese kidnapping though.

H.M.Jr: We don't, but I think they are. I mean it has all the earmarks of the thing.

Now I agree with my crowd that if it was my decision I would release the gold and buy Government bonds with gold certificates and retire them. I mean that's what I would do if it was my job. But I think that - and that is what I may have to do if we are forced into it.

Taylor: We also don't know that they won't ask us to do that.

H.M.Jr: But to answer you (Seltzer) that was pointed out to them yesterday in a very forcible manner as a possibility. As a matter of fact, at a luncheon which took place Wednesday, Eccles told me that he thought he had overshot his mark and that he needed another three hundred million of gold. They wanted eight hundred million on the first of May instead of five. And he brought it up himself, and George almost fainted. But he brought it up himself on Wednesday.

Taylor: As you say, it isn't by any means excluded that that won't be what they will ask us to do, to loosen the situation. They've got one of two things, open market or that, and the one which will produce the best Chinese effect is the one that they will come out with. I am not at all sure it isn't going to be the gold.

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H.M.Jr: Of course, the interesting thing to me

(Harris comes in.)

How's our market?

Harris: It's definitely on the up side, particularly on the long bonds. Here's an article I just came across in the American Banker which I think would be very interesting. I didn't get time to read it all.

H.M.Jr: What did they have to say?

Harris: It said the market atmosphere was the thing now, and they seem to think

H.M.Jr: O.K. But what are the two and a halves?

Harris: They are ten - twelve.

H.M.Jr: Thanks. How much have we spent this morning?

Harris: The only report I have had is twenty thousand dollars; that was about ten minutes ago.

(Harris goes out.)

Haas: In connection with your discussion with Jeff Coolidge, we discussed when he was down here interest rates many times, and if Jeff hasn't changed his mind I can conceive of his sitting pretty and comfortable and still not selling a bond - if his reasoning is still the same as it was here. I remember there was a good deal of apprehension at one time that the banks had very large portfolios - if they would get very large the banks would get into difficulties. Well, Jeff's reply to that was that "If I were running a bank and I had Government portfolio, I'd be glad to let it go down if interest rates went up, because the rates on the profit paper - commercial paper - the volume would increase, the rates would increase, and the banks would make a good deal; they could afford to take some depreciation in the Government accounts and nobody would worry about it if the other things came about." So conceivably he could sit back and feel very comfortable with higher rates.

- Lochhead: He more or less intimated - he said he was holding short-term bonds and long-term bonds; he wouldn't think of selling out his long-term bonds unless his short-term rates came up much higher. As I say, there's your whole angle, and that's what I say; how far can short-term money rates go up without also hurting us as well as long terms?
- H.M.Jr: What's going to happen here today - and that's why I'm feeling so well; I got it out of my system last night - Harrison and Burgess are going to be absolutely opposed to an increase in the portfolio of the Federal Reserve. We frightened Eccles last night, and he went out and made all these statements to the press about what he was going to do and so forth. Certainly when he left you (Taylor) he was very - pretty well committed that he was going to increase their portfolio.
- Taylor: Perfectly willing to.
- H.M.Jr: And Goldenweiser was in favor of increasing the portfolio. Harrison and Burgess aren't. Now, the fight that is going on over there now must be a pretty one, see? But, you see, in advance of his meeting with his open market committee, he goes out on the end of a limb last night and makes all these statements.
- Gaston: And I think it is obvious that he is trying to make the record stand that that was his position the day before he saw you.
- H.M.Jr: A little more Chinese stuff.
- Taylor: It's more than possible that he was, too.
- H.M.Jr: Doing business with the Chinese has taught me a lot. Well, no one around here says that I am too calm this morning, do they?
- Murphy: Well, I might take some exception.
- H.M.Jr: Good. Go on, Murphy.
- Murphy: I am a little surprised in the course of a half hour at having been converted from a Rightist to a Leftist. That is, in the conference in our own

- 17 -

division, I seem to be the Right, so that Mr. Haas addresses me as Mr. McReynolds. But now I find myself sort of stranded on the Left on a proposition - you say that if the two and a halves go below par, then the Federal Reserve Board will be shocked into action. I don't think they should go below par. I think that we should, for the time being, view par or even par eight on the two and a halves as a "Hindenburg Line" which we should defend. And I might say I get more qualms than most as to whether the present rate of long-term interest rates is defensible. Maybe it is a rate that we shouldn't maintain. But if it should go lower, I think it should go lower as it did in 1899 or 1900 to 1910, by imperceptible gradations, and not by a rather sharp break. The thing that we have to combat above all other things is that there are a lot of people who think this is the turning point, and the only way to convince them it isn't the turning point is by not letting it turn.

H.M.Jr: I'll argue this way. But we don't know whether it is or isn't if the Federal Reserve doesn't change their policy. I mean if they keep excess reserves at \$500,000,000 and won't increase their portfolio, how do you know that this isn't the turning point?

Seltzer: Oh, I think we'll have or they'll have to in one way or another get more than that amount of excess reserves by May 1st. You'll have to - that May 1st period at least.

Murphy: It may be the turning point, but if so, the - when in China, you say, act as the Chinese - it shouldn't be considered to be a turning point. When interest rates turned in the early 1900's no one ever spoke about a turning point, because the turning point took years to turn.

Lochhead: Well, the one thing that I think we shouldn't make a mistake about in this situation is saying that these two and a halves should not go below par and figuring that this is just the danger point. Supposing your two and a halves can be kept up

above that level and you find that your weekly offerings of bills are running up good and high. I think that is just as important as the other, because you can put artificial props under it and keep up your long bonds, but if you keep them up at the expense of shorter securities - in other words, I think we have to speak about general interest rates and not just long-term rates.

Murphy: Well, maybe this is the turning point, and if it is the turning point and naturally, should be the turning point, that is all right with me. But turning points should only be things that are found out in history books. We can take a look back to find out what was the turning point in the 1900's.

Seltzer: You didn't know about it until 1909.

Murphy: You didn't know about it until 1909. But once people get the idea it is the turning point, then everybody says

H.M.Jr: But these boys that I've talked to - they're not talking in terms of a turning point.

Murphy: Well, it is to our interests that they shouldn't even come near thinking of turning points.

H.M.Jr: All right. But now listen, you fellows go in and chew it over in your office. Mr. Hull wants to talk to me. But I am much calmer this morning, and I think rather - I think this may be a historic battle taking place over in the Federal Reserve today and I want to sit by and watch what happens. I mean this is really a battle between what Eccles - the Eccles' philosophy and the philosophy as represented by the New York banks, and that battle is taking place over there now. Now, I think I can very well afford to sit back and wait and see what happens.

Bell: As long as the market is at the present tone, you can sit back.

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H.M.Jr: Exactly.

Taylor: The last time the New York banks weren't right.

H.M.Jr: Right.

Taylor: And I don't think they will be this time.

H.M.Jr: Well, when it comes to carrying out orders, Randolph Burgess - I wouldn't want a squarer or more able fellow; that is, after three and a half years' experience. But he has said right along that he wants higher interest rates. There is a conflict on philosophy. I mean there isn't a squarer fellow, but he - but he's got what he wanted. See? Now he's got it.

Taylor: Well, they won the last one; now let's see whether they win this one. I personally don't think they will.

H.M.Jr: Well, I want to sit and chew my cud a little, and you fellows stick around and see what happens.

March 13, 1937
10:57 a.m.

26

H.M.Jr: Hello?

Operator: Sen. Pittman.

Pittman: Hello? Good morning.

H.M.Jr: Key, Cordell Hull just called me up on this five per cent withholding tax with Canada, -

P: Yes.

H.M.Jr: - and he said that Pat Harrison turned it over to you, and Cordell says he only found out about it yesterday, or the day before, and he'd like a couple of days to study it. All right?

P: Well that's all right with me.

H.M.Jr: Well, I told him perfectly honestly that I only found out about it a little while ago myself, and I don't know how the hell the thing ever did get in there.

P: You don't want it, eh?

H.M.Jr: No, I don't say that.

P: (Laughs) All right.

H.M.Jr: I don't say that, but I think Cordell may want to use it for trading purposes, you see? And he says he needs - he says if it would just be held up for a couple of days, it would be helpful to him.

P: That's very easy to do.

H.M.Jr: And that's all right with me.

P: There's no trouble to hold anything up here. (Laughs)

H.M.Jr: (Laughs)

P: The State Department is - for the last week has been urging action on my part.

H.M.Jr: Well, Cordell just called me and asked me as a favor to call you and - to hold this up.

P: Well, it's in a position where I can do it because the subcommittee has reported it to the full committee, -

H.M.Jr: Yes.

P: - and the full committee can report when it gets ready.

H.M.Jr: Well, he - he - that will make him happy.

P: All right. Well, if there is anything else to advise me on it on Monday, do it, will you?

H.M.Jr: Yes, I won't be here, but Wayne Taylor is standing in my room now, and he knows about it, and he -

P: All right. If anything else comes up to advise me on it, let me have it.

H.M.Jr: Wayne Taylor will get in touch with you.

P: All right.

H.M.Jr: Thank you, Key.

lw
 A portion of this telegram must
 be closely paraphrased before
 being communicated to anyone.(A)

Paris

Dated March 13, 1937

Rec'd 11 a.m.

Secretary of State

Washington

357, March 13, 12 a.m.

(GRAY) FROM COCHRAN

JOURNAL OFFICIAL this morning carried decree which closed yesterday evening subscriptions to the first issue of the national defense loan. Minister of Finance stated to press last night that this first tranche had been closed eight hours after subscriptions were opened. He has decided to issue, beginning Tuesday, a second tranche in the same terms as the first. Those subscribers who failed to obtain yesterday the amounts they desired will, it is indicated, be given preference for the second issue.

Amount of second tranche is not yet announced but market expects it to be from 2½ to 3 billion francs.

Some French writers feel that terms of loan were more favorable to subscribers than was necessary. Press and market are both, however, happy to see the loan succeed so well.

In official trading this forenoon the franc has continued strong against all currencies with the Bank of France

acquiring

some sterling.

I am told by bankers that the new bonds can easily be obtained today from banks which subscribed thereto with the banks yielding to the buyer their commission of 15 francs per thousand. (A premium of six francs on inter bank sales was asked yesterday, that is, before it was known that a second tranche in similar terms would be shortly issued). End Section one.

WJL:AS

RECEIVED
 MAR 13 1937
 TREASURY DEPARTMENT
 Office of the Secretary
 Treasury Building in the Capitol

lw

GRAY

Paris

Dated March 13, 1937

Rec'd 11:40 a.m.

Secretary of State

Washington

357, March 13, noon (Section Two)

Yesterday the FINANCIAL NEWS, London, criticised British officials for refusing French scheme of making coupons payable in London in spite of tripartite agreement. In reply to this the FINANCIAL TIMES today said in part:

"Practically all the subscriptions came from internal sources and no doubt the big French banks and insurance companies took large amounts. Some French nationals with funds abroad may have repatriated part of their capital to apply for the new loan but there is no evidence British investment circles were deeply interested. Criticism has been launched against the British and American authorities for the supposed lack of help to France in the matter. This business is a French domestic concern and it was up to the Blum Government to induce French citizens to lend to their country in the emergency. This has been achieved by the ingenious method of giving an exchange option and guarantee which will protect the investor against his principal fear -- a further fall in the value of the franc."

HPD

WILSON

RB

GRAY

Paris

Dated March 13, 1937

Rec'd 12:12 p. m.

Secretary of State

Washington.

357, March 13, noon (SECTION THREE)

In an editorial the LONDON TIMES today touched on this point as follows:

"So far as is known comparatively few subscriptions came from London in spite of the generous terms and guarantees against loss from exchange fluctuations. This is as it should be for from the very nature of the loan it was an issue for the French investor. In some quarters it seems to have been expected that the British Treasury would have given the loan a kind of international character by authorizing subscriptions to be received and interest to be paid in London. Much as Great Britain must be interested in everything which contributes to the financial and political stability of the French Republic there was no need for any assistance of this kind. Indeed it would have implied almost an offensive lack of confidence in the good sense as well as the patriotism of French investors whose resources it was well known were amply sufficient to make the loan a success. The moral and political effects of the over-subscription would have been seriously weakened if foreign

RB

-2-#357, March 13, noon from
Paris (SECTION THREE)

if foreign money had come forward because there was a
fear that French money might not."

The LONDON ECONOMIST today says the recent French
financial reforms "continue the work of reconstruction
initiated last autumn by the tripartite monetary agreement
and the subsequent devaluations and they deserve all
possible success". END MESSAGE

WILSON

HPD

RECEIVED

MAR 14 1937

TREASURY DEPARTMENT

Office of the Secretary

Department of the Treasury

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 13, 1937

TO Secretary Morgenthau
FROM M. A. Harris

Attached is a table showing the closing prices of Treasury bonds and Treasury notes and Guaranteed issues on December 31, 1936 and March 12, 1937 and the net change in price for this period. Also, the closing bid prices on February 25, 1937, the day the announcement was given that no new money would be asked in the March 15th financing, and on March 12th and the net change for this period.

It can be seen from this table that losses since the first of the year by most of the short and intermediate Treasury bonds are two to three times as large as those by long bonds. However, losses by all bonds since February 25 are of about the same proportions. It can also be seen that losses suffered by long bonds has been entirely in the period since February 25th.

	Closing Prices Dec.31	Closing Prices Mar.12	Net Change	Closing Prices Feb.35	Closing Prices Mar.12	Net Change
<u>Treasury Bonds</u>						
3-3/8s 1940-43 (Jun)	107.26	106.8	- 1.18	106.31	106.8	- 0.23
3-3/8s 1941-43 (Mar)	108.24	106.30	- 1.26	107.31	106.30	- 1.1
3-1/4s 1941	108.22	106.26	- 1.28	107.26	106.26	- 1.0
3-3/8s 1943-47	110.18	107.9	- 3.9	108.30	107.9	- 1.21
2-1/4s 1943-45	109.27	106.24	- 3.3	108.14	106.24	- 1.22
3-1/4s 1944-46	109.26	106.26	- 3.00	108.15	106.26	- 1.21
4s 1944-54	115.21	113.00	- 2.15	114.13	113.00	- 1.13
2-3/4s 1945-47	106.20	103.28	- 2.24	105.12	103.28	- 1.16
3-3/4s 1946-56	114.16	111.20	- 2.28	113.1	111.20	- 1.13
3s 1946-48	108.00	105.22	- 2.10	107.8	105.22	- 1.18
3-1/8s 1946-49	108.27	107.2	- 1.25	108.5	107.2	- 1.3
4-1/4s 1947-52	121.16	117.28	- 3.20	119.22	117.28	- 1.26
2-3/4s 1948-51	104.11	102.16	- 1.27	104.7	102.16	- 1.23
3-1/8s 1949-52	108.14	106.23	- 1.23	108.6	106.23	- 1.15
2-1/2s 1949-53	101.15	100.12	- 1.3	101.17	100.12	- 1.5
2-3/4s 1951-54	103.13	102.12	- 1.1	103.17	102.12	- 1.5
3s 1951-55	106.20	105.22	- 0.30	106.26	105.22	- 1.4
2-1/8s 1955-60	104.20	103.18	- 1.2	104.30	103.18	- 1.12
2-3/4s 1956-59	103.00	102.9	- 0.23	103.17	102.9	- 1.8
<u>Guaranteed Issues</u>						
H.O.L.C. 2-3/4s 1939-49	103.2	101.2	- 2.00	102.25	101.2	- 1.23
F.F.M.C. 3s 1942-47	105.21	103.27	- 1.26	105.8	103.27	- 1.13
F.F.M.C. 2-3/4s 1942-47	104.14	103.17	- 0.29	104.2	103.17	- 0.17
H.O.L.C. 2-1/4s 1942-44	103.00	101.4	- 1.28	102.20	101.4	- 1.16
F.F.M.C. 3-1/4s 1944-64	105.30	104.30	- 1.00	105.28	104.30	- 0.30
H.O.L.C. 3s 1944-52	105.00	103.8	- 1.24	104.29	103.8	- 1.21
F.F.M.C. 3s 1944-49	105.13	104.00	- 1.13	105.8	104.00	- 1.8
<u>Treasury Notes</u>						
3-1/4s 9/15/37	102.8	101.21	- 0.19	102.2	101.21	- 0.13
2-5/8s 2/1/38	102.15	102.00	- 0.15	102.5	102.00	- 0.5
3s 3/15/38	103.6	102.18	- 0.20	102.23	102.18	- 0.5
2-7/8s 6/15/38	103.19	102.26	- 0.25	103.2	102.26	- 0.8
2-1/2s 9/15/38	103.10	102.20	- 0.22	102.27	102.20	- 0.7
2-1/2s 3/15/39	101.12	100.27	- 0.17	101.6	100.27	- 0.11
2-1/8s 6/15/39	102.29	102.8	- 0.31	102.18	102.8	- 0.10
2-3/8s 12/15/39	101.7	100.13	- 0.26	100.28	100.13	- 0.15
2-5/8s 3/15/40	101.25	100.25	- 1.00	101.10	100.25	- 0.17
2-1/2s 6/15/40	101.12	100.8	- 1.04	100.20	100.8	- 0.22
2-1/2s 12/15/40	101.12	99.30	- 1.14	100.26	99.30	- 0.28
2-7/8s 3/15/41	101.9	99.29	- 1.12	100.26	99.29	- 0.29
2-3/8s 6/15/41	100.26	99.16	- 1.10	100.8	99.16	- 0.24
2-1/4s 12/15/41	100.16	99.15	- 1.01	100.	99.15	- 0.17

Note: Figures after decimal points represent 32nds of one percent.

March 15, 1957.

The Honorable,
The Attorney General.

My dear Homer:

I am enclosing herewith copies of clippings from Chicago newspapers of articles relating to a reported investigation by District Attorney Igoe of the activities of Treasury agencies in Chicago.

I am sending these for your information since they affect both of our departments. I call your attention particularly to the article appearing in the Herald Examiner on Friday, March 12th, which seems to have been given to the press following Mr. Keenan's instructions to Mr. Igoe on Thursday.

Sincerely,

Secretary of the Treasury.

Enclosures.

[Handwritten signature]
REG:stew

BOOTLEG LIQUOR FLOODS CITY

CAPONE LIQUOR RULE CHARGED

Continued From First Page

CAPONE GANG BUSY AS IN PROHIBITION ERA

Yellowley Rule Over Alcohol Tax Unit Assailed by Igoe Aid **JURY QUIZ**

Assistant United States Attorney Daniel D. Glavin...
...alleging that Chicago rule is as badly flooded with illicit liquor as it was during prohibition.

Mr. Glavin, the administrator of E. C. Yellowley, head of the alcohol tax unit, declared that Yellowley's men are as active in the "bootleg" and stilling racket as in prohibition.

It is alleged by Glavin, the Chicagoan, that in the past year of bootlegging in Chicago, the city has been flooded with illicit liquor in quantities and in a manner...

Thought to be mentioned in Chicago...
...He pointed out that the unit had no jurisdiction over the bootlegging...

He mentioned that the unit had no jurisdiction over the bootlegging...
...E. C. Yellowley, prominent...

YELLOWLEY BEFORE JURY

...in the grand jury in Wisconsin and was alleged to be...

...with...

...with...



E. C. YELLOWLEY
His protest brought charges...

MICHAEL IGOE
Pushes liquor investigation...

STRA IS CONTROL

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A TIP TO THE GRAND JURY.

A federal grand jury is investigating the activities of moonshiners in the Chicago area, with special attention to the gathering of evidence by the local alcohol tax unit and the apparent immunity of "highways" among the moonshiners. The subject is one that merits thorough investigation. It is to be hoped that the grand jurors realize the extent of their powers and that they will utilize them to the end that all facts bearing on the situation be brought to light.

There appears to be an impression around the federal building that the alcohol tax unit has been lax in its methods of collecting and presenting evidence, and that it brings into court only the "small fry" distillers—employees of the men who really control the illicit industry. The grand jury should go into this matter thoroughly.

It might also be worth while for the jurors to go back a few months in their inquiry and find out what happens when the tax unit does bring one of the highways into court. The case of Barney Franklin, for instance, might be worthy of attention. This newspaper, on Dec. 7, 1934, presented in its editorial columns a summarized case history of the Franklin affair. The article recalled that agents of the alcohol tax unit raided Barney's rathskeller at 10 North Clark street on June 18, 1934, and confiscated a large quantity of illicit alcohol and counterfeit revenue stamps. Franklin and one of his employees were arrested. There were eight continuances of the case before an indictment was obtained. Another prolonged series of continuances—most of them on motion of the district attorney's office—delayed the trial until Dec. 10. In the meantime, it was revealed, District Attorney Michael L. Igoe had recommended to Mr. Yellowley, head of the alcohol tax unit, that an offer to compromise civil and criminal liabilities be accepted by the government, and that Franklin be let off on payment of \$1,650 in taxes and penalties. Mr. Yellowley declined to concur in the recommendation. Nevertheless Assistant District Attorney Daniel Glazer recommended to Judge Philip L. Sullivan acceptance of the compromise offer, and after Franklin had pleaded guilty to one count in the indictment and had paid the \$1,650 he was given his freedom, subject to one year's probation.

Here was a case in which a highway was brought into court, and in which there appears to have been no question of guilt. Yet the highway was let free to go.

Yes, if the federal grand jury is sincere and determined in its quest, it has the power to perform a real service.

CHICAGO DAILY NEWS - Saturday, March 13, '37

Chicago Daily News - March 13, '37

U. S. LAUNCHES QUIZ ON CHICAGO ALCOHOL RAIDS

E. C. Yellowley, chief of the treasury department's alcohol tax unit for this district, and his chief assistant, Ralph E. Herrick, were summoned before the March federal grand jury yesterday in connection with an investigation of illicit liquor cases.

The office of Michael L. Igoe, United States attorney here, has been conducting a searching inquiry into Yellowley's methods of enforcing the liquor revenue laws. The basis for dissatisfaction, it was said, is the fact that in numerous raids on stills only small fry attendants were arrested. The men behind the scenes, characterized by investigators as reorganized remnants of the Capone gang, have not been touched.

Quizzed on Raid Methods.

Another point which Mr. Igoe's office is reported to be investigating is the practice of agents of the alcohol tax unit of raiding stills and making arrests without search warrants.

One case under investigation by Mr. Igoe's office is that of a raid by Yellowley's agents on a still at 6427 South State street on July 15, 1936, in which 120,000 gallons of mash, a quantity of alcohol, and a large still were seized.

Only Attendants Seized.

The only arrests made were of three attendants. One, Jesse Feiger, was freed by United States Commissioner Walker on July 29 for lack of evidence. The others, George Watkins and Harold Sadis, were held to the grand jury by the commissioner.

The still was one of the largest uncovered in the Chicago area since prohibition. Another large illicit alcohol plant at 540 West 59th street was raided on June 3, 1936. A 2,000 gallon still was broken up, 1,200 gal-

lons of alcohol seized, along with 32,000 gallons of mash.

In this raid, only one arrest was made by the government agents. Taken prisoner was Frank Frost of Aurora, an attendant. When he was arraigned before Commissioner Walker, two of the agents who had conducted the raid failed to appear against him. These were R. J. Cas-

serly, assistant to Herrick, and T. J. Coakley.

Commissioner Walker freed Frost because the only Yellowley representative to attend the hearing, Agent Joseph Byrnes, was not directly associated with the case.

District Attorney Igoe refused to comment but it was learned his office has been investigating the non-appearance of the agents.

CHICAGO DAILY TRIBUNE -

First Edition, Thursday, March 11, 1937.

YELLOWLEY'S AIDS QUIZZED

Assistant District Attorney Daniel D. Glasser today continued the probe of records of District Supervisor E. C. Yellowley of the alcoholic tax unit, begun yesterday by a federal grand jury.

Twelve agents of the unit were summoned to Glasser's office this afternoon, ordered to bring with them records of about twenty cases and be prepared to explain all evidence.

Tomorrow afternoon Glasser will

be closeted with Yellowley, who was summoned before the grand jury in an effort to determine reports that big shot liquor law violators were escaping prosecution while little fellows took the raps.

Yellowley is to return before the grand jury next week.

Fourteen veteran agents were transferred from Yellowley's office to all parts of the country recently. It is understood this followed a story of their activities told Yellowley by an ex-agent, whose name Glasser declined to reveal.

The grand jury is said to be pondering a summons for the ex-agent.

CHICAGO AMERICAN

Thursday, March 11, 1937.

YELLOWLEY ON JURY 'CARPET'

Federal Investigators Demand
to Know Why 'Big Shots'
Escaped Jail; Surprise Move

In a surprise action, E. C. Yellowley, head of the federal alcohol tax unit, and his chief assistant, Ralph E. Herrick, "mop-up man" in charge of field work and raids, were haled before the federal grand jury yesterday.

They were reported subjected to a vigorous inquisition as to their methods in ferreting out illicit stills and taxless liquor, and particularly with reference to the question of why so many small-fry alky cookers were being

brought to court, while ringleaders apparently escaped detection.

The grand jury, in a communication last week to United States Attorney Igoe, sharply criticized the Yellowley office, asserting that it was permitting "big shots" to escape prosecution.

Peter V. Fell, jury foreman, said that the cases involved such patent violations of the right to search, and were prepared so inadequately, that in most cases the jury was forced to vote no-bills.

CHICAGO HERALD AND EXAMINER

First edition, March 11, 1937.

E. C. YELLOWLEY AND TWO CALLED BY FEDERAL JURY

Alcohol Tax Unit Methods Under Igoe's Scrutiny.

E. C. Yellowley, chief of the treasury department's alcohol tax unit in the Illinois-Indiana-Wisconsin district, and his first assistant, Ralph E. Herlik, were summoned before the March federal grand jury yesterday. The purpose of the summons was not disclosed.

The methods of the Yellowley agents have been under investigation for several weeks by the office of United States Attorney Michael L. Igoe. It was learned his forces have accused the tax agents for



Michael L. Igoe. E. C. Yellowley.

falling in with the kingpins of the illicit liquor racket. Only the small fry, they say, have been sought.

Wants Employees in Court.

Federal Judge Philip Sullivan recently postponed the hearing of five Chicago beer vendors with the remark that he wanted "the employees—the men behind this alcohol ring—before the court." On Tuesday Federal Judge James H. Wilker was discussing an alcohol case because the federal agents seized a still without having a search warrant.

Federal Judge John P. Barnes yesterday postponed Monday the hearing of Joseph Soltwedel, charged with possessing twenty-five gallons of unexcise alcohol. At Soltwedel's first hearing on March 3, at which he pleaded guilty, Judge Barnes asked for the names of two men who had been arrested with Soltwedel were

Study Raids on Big Stills.

In a recent letter to Mr. Igoe, Peter V. Fell, foreman of the February federal grand jury, blamed the voting of a large number of no-bills on incomplete evidence obtained by the government tax agents.

Two cases involving raids on large Chicago stills are under investigation by Mr. Igoe's office, it was learned. In each only the attendants—alky cooks and janitors—were arrested. The federal attorney's men also are seeking the reason behind the transfer of more than two dozen alcohol tax unit agents from Chicago to other cities in the last two months.

At Yellowley's office it was revealed that fourteen agents have been transferred from Chicago this month and that a similar number were sent away last month.

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CHICAGO DAILY TRIBUNE,
Thursday, March 11, 1937.

Alcohol Unit Under Fire—

Yellowley Quizzed by U. S. Grand Jury

In a surprise action, E. C. Yellowley, head of the federal alcohol tax unit, and his chief assistant, Ralph E. Herrick, "mop-up man" in charge of field work and raids, were haled before the federal grand jury late yesterday.

They were reported subjected to a vigorous inquisition as to their methods in ferreting out illicit stills and taxless liquor, and particularly with reference to the question of why so many small-fry alky cookers were being brought to court while ringleaders apparently escaped detection.

The grand jury, in a communication last week to United States Attorney Igoe, sharply criticized the Yellowley office, asserting that it was permitting "big shots" to escape unscathed while arresting petty offenders on illegal searches.

Peter V. Fell, jury foreman, said

that the cases involved such patent violations of the law; to search and were prepared so inadequately that in most cases the jury was forced to vote no-bills.

It was a complete surprise in the Federal Building, however when the jury issued its summons to the two dry chiefs.

United States Attorney Igoe, who has differed sharply with Yellowley over procedure, holding it imperative to concentrate against big operators, while permitting petty offenders to settle penalties in "cafeteria court," said the jurors had acted on their own initiative.

*Chicago Herald & Examiner
This morning edition 3/11/37*

CHICAGO HERALD AND EXAMINER -

Morning Edition, Thursday, March 11, 1937.

GLASSER CALLS 12 U. S. AGENTS IN ALCOHOL CASES

Assistant United States District Attorney Daniel D. Glasser today summoned twelve agents of the alcohol tax unit in connection with the investigation by the federal grand jury of more than a score of cases involving the seizure of illicit stills. A number of the cases, it was reported, face no bills either because of lack of sufficient evidence or illegal search and seizure by the agents.

E. C. Yellowley, district supervisor of the alcohol tax unit, and his first assistant, Ralph E. Herrick, were questioned yesterday by the grand jury in regard to methods of procedure in ferreting out illicit stills.

Mr. Yellowley is expected to testify again next week. The agents summoned by Glasser were directed to bring in every possible bit of evidence that may help the cases pending before the grand jury.

CHICAGO DAILY NEWS

Thursday, March 11, 1937.



Office of the Attorney General
Washington, D. C.

March 13, 1937.

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

Dear Henry:

Thanks indeed for your letter of
March 13, with its enclosures. I am
referring the matter to Mr. Keenan, who, as
you know, is following it up.

Sincerely yours,

Attorney General.

March 13, 1937

PRESENT:

Mr. Lochhead
Dr. Burgess

HM, Jr. telephoned to Mr. Coolidge and attached is a record of their conversation.

HM, Jr.: I have a hunch and I want to get these various services like Standard Statistics, Moody's, etc. Someone, some place, somewhere has talked to these different services.

(Note: The Secretary called attention to the attached service letter of Theo. R. Goldsmith, Inc.)

If it does not come from these services, it may come from across the street. I am talking about the fact that the Government bonds are too high. This has happened before and somebody, I think not connected with the Treasury, has talked.

Dr. Burgess: I believe Standard Statistics has been bullish right along.

HM, Jr.: If this was a cumulative thing, why should my refunding have gone so well? I may be wrong. This may be a big movement, but I "smell a rat". This Government bond market started to sell off when the Federal Reserve announced that they were going to increase their excess reserves .

Dr. Burgess: You can't restrain inflation and have money rates remain low. When you deflate, you have cheap money.

HM, Jr.: The Board is on record in saying that they are in favor of low long-term money rates. I do not believe you can correct this thing by making public statements. Fortunately for me, I never have done so. I have never made any prophecies, but meet the situation each day as it arises. Every single statement in today's papers is accredited to the Federal Reserve.

March 13, 1937
9:30 a.m.

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H.M.Jr: Hello, Jeff, how are you?
T.J.
Coolidge: I am very well and how are you, Henry?

H.M.Jr: I am just about ready to go to Sea Island. If you don't mind, I would like to have this a one-way conversation. What do you think about the Government bond market and could you interpret what has happened in the Government bond market for me?

C: Yes, Henry. I think that for some reason, probably the thought of short-time money rates. We had a big break in the corporate bonds and in the state bonds, -

H.M.Jr: Yes.

C: - tax exempts.

H.M.Jr: Yes.

C: And I think the Government market is now following their gun.

H.M.Jr: Any gossip up there that you could pass along to me?

C: I have had very little, indeed. The - the - let me think now - I had a talk yesterday with Mr. Parker, who travels around.

H.M.Jr: Yes.

C: It's that Standard Statistics, you know.

H.M.Jr: Ah-ha.

C: And he felt that we were nearing the end of the very cheap money - that we'd have temporary money worth something inside of eight or twelve months.

H.M.Jr: Ah-ha.

C: And that that feeling was depressing Government bond - general bond prices, -

H.M.Jr: Ah-ha.

C: But I think he felt that it is being rather overdone.

H.M.Jr: Do you - do you mind my asking how you feel about it yourself?

- C: Have we been doing -
- H.M.Jr: No, not what you - no, just how you feel personally.
- C: Well, I think - I think the best way to say that is - is what I have been doing in the bank.
- H.M.Jr: What's that, Jeff?
- C: And we've got about \$60,000,000 bonds as distinct from shorter - shorter securities, -
- H.M.Jr: Ah-ha.
- C: - and they're holding on to them.
- H.M.Jr: I see.
- C: A few months ago we sold a fair amount of, say from four to eight years, -
- H.M.Jr: Yes.
- C: - and bought somewhat longer ones, but in smaller quantity.
- H.M.Jr: I see.
- C: And we've now - we're now in a position where we are going to sit on those -
- H.M.Jr: Ah-ha.
- C: - and the rest of our Government money is - another, say, seventy-five or eighty-five million, is - is quite short. We're buying a lot of these bills.
- H.M.Jr: I see. Well, then you're not particularly disturbed?
- C: No; no - not - in fact, I think we've done about right here. I think we're - we're going to have a good bunch and we're going to sit with them, certainly until we see the - the short-time money rates really begin to go up.
- H.M.Jr: Ah-ha. Well, it was my good fortune that we got through our conversion 96% or better, so I can afford to be fairly -
- C: Yes.

H.M.Jr: - philosophical about it all.

C: I - personally, my hunch is this - this drop was due to come and it came first in the tax exempts and corporates and now it is coming in the Treasuries.

H.M.Jr: Well, I wanted - I wanted - I mean there are so few people that I feel that I can call up that I have confidence in that I thought you were one of two that I could.

C: Yes, well, it's - I'm - I'm glad you called up, Henry. I appreciate it.

H.M.Jr: All right, Jeff. You're well?

C: Couldn't be better.

H.M.Jr: Pardon me?

C: You aren't coming up this way again, are you? We missed you before; we were down South.

H.M.Jr: Yes, I was sorry. Burgess is sitting here and he says to send you his best regards.

C: Thank you.

H.M.Jr: All right.

C: Goodbye.

H.M.Jr: Goodbye.

C: Goodbye.

THEO. R. GOLDSMITH, INC.
NATIONAL PRESS BUILDING
WASHINGTON, D. C.

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Hon. Henry A. Morgenthau, Jr.,
Secretary of the Treasury,
Treasury Department,
Washington, D. C.

March 12, 1937

Dear Mr. Morgenthau:

Chairman Marriner S. Eccles told me today that the powers of the Federal Reserve System will be employed to maintain prices of long-term U. S. Government bonds at approximately the present level. He denied current rumors that sales of U. S. Government securities by the Open Market Committee of the Federal Reserve System would be used to curb the current rise in commodity prices. On the contrary he is of the opinion that open market PURCHASES of Government securities may be indicated if additional credit is required to finance business needs at rising prices. He is not of the opinion that a restrictive credit policy should be used to curb the present rise in commodity prices. Other Government departments, such as the Agriculture, the S. E. C. and the Federal Trade Commission are vested with powers to control this situation.

Mr. Eccles is fully aware that the retirement of Government debt in the hands of the banks by application of Social Security taxes, etc., may not be effectively accomplished for some time. He recognizes the possibility that increased deposits, resulting from improved business and a rise in currency circulation, may deplete the estimated \$500,000,000 of excess reserves, remaining after the full boost in reserve requirements becomes effective on May 1. He says the Federal Reserve System will not permit a credit strain to develop which would force the banks of the country to liquidate bonds. If credit expansion or currency circulation during the balance of the year reaches a new high, Federal Reserve action will supply the banking system with additional reserves. This will be accomplished by the purchase of Government bonds in the open market by the Federal Reserve banks or by a temporary suspension of the Treasury's gold sterilization program.

A yield of about 2½% on long-term Governments is considered both reasonable and desirable, according to Mr. Eccles, and, therefore, monetary policy will be directed towards maintenance of low long-term interest rates.

Mr. Eccles is fully aware of the fact that the policy of ex-

tension of additional credit, outlined in his conversation, may subject the Board of Governors of the Federal Reserve System to criticism on the ground that instead of curbing a possible price inflation, it actually would be feeding it. He is convinced, however, that the current boom in business and commodity prices, which is now developing is caused by other than monetary factors and must be corrected by other than monetary means. He is convinced that monetary policy at this juncture must be used to encourage an expanding output of goods, rather than a restriction of purchasing power which would tighten long-term interest rates and, therefore, cause a decline in production. He regards money as "the servant and not the master of the economic system." In his opinion, a managed currency system can operate successfully, only if non-monetary controls of our economy are applied. At this time a policy of restricting credit to curb a rise in commodity prices might be effective, but "the cure would be worse than the disease." The supply of money and credit, must be kept in line with credit needs.

Mr. Eccles said that open market operations of the Federal Reserve System, unquestionably will be used to prevent any temporary credit strains caused by seasonal expansion of loans and currency circulation. I was told that an active and aggressive open market policy to prevent any undue decline in the bond market or any lack of credit for expanding business, may be confidently anticipated.

This special letter is being sent to you because of the recent decline in the Government bond market seems to be based upon a false appraisal of future Federal Reserve policy. In our Bulletin next week, I will try to make a more comprehensive outline of the opinions and facts obtained today in the interview with Mr. Eccles.

Yours very truly,

Pres. R. Goldsmith

TRG/rdm

The Week in Finance

(Continued from page 48, this issue.)

gold, in exchange for dollars, the purchase does not add to the monetary gold stock until the metal so acquired is passed on to the Treasury.

Back in June, when gold was arriving in large quantities from abroad, the stabilization fund took in some of the gold shipped here and another part of it was placed under earmark. In that month the net gold import was \$277,000,000 and monetary gold rose only \$200,000,000. It was revealed that \$77,000,000 of the gold imported was placed under earmark and \$40,400,000 of it disappeared in that catch-all item known as "other factors." The indication is that the fund claimed this \$40,400,000 of gold as payment for dollars it advanced to foreign countries. Again in September there was a \$14,000,000 disappearance of imported gold in "other factors" and \$20,800,000 of the imports was put under earmark.

Foreign countries are showing a good deal less reluctance to hold earmarked gold in the United States than the Treasury has to keep gold abroad under earmark. During the recent conference in Washington, attended by a variety of governmental officials and expert advisers from private life, the Treasury had under consideration the question whether it would be content to ac-

cept earmarked gold at the Bank for International Settlements.

Some of the smaller European countries were willing to come into the currency agreement if they could be represented by the B. I. S. These countries settle payments from one to the other by transfers of gold on the books of the B. I. S. and they were hopeful that the Treasury, through the stabilization fund, would give and take in this gold-clearing operation. But the European plea seems to have come to naught, for the Treasury expressed a preference to deal with governments in currency matters rather than through the B. I. S. and, through it, the central banks of the various smaller nations.

The Treasury seems to have feared, too, that some nation might pawn off on it some of the Spanish government gold, the possession of which at the B. I. S. might lay it open to suit to repossess if the Franco arms were victorious in the civil war. And, finally, the Treasury was unwilling, as yet, to depart from its long-standing practice of keeping under lock and key in this country all of the gold belonging to it. If there are to be earmarking operations, the Treasury would prefer to have these take place in this country rather than in Switzerland. That is perhaps the reason why the amount of gold under earmark here has been sharply on the rise in the last few months.

Dr. Burgess: If anyone thinks that he can control commodities and not be a Hitler or a Mussolini, he's just crazy. It just can't be done.

HM, Jr: The rise in the prices are all war commodities. The other commodities have not gone up.

If I were in this thing alone, with you people in New York to act for me, I would not be so worried. I have handled much worse situations with you people and have come through it grinning, but I do not know what the Federal Reserve Board will do. I think the Federal Reserve Board should begin open market operations.

Dr. Burgess: I think that would be a mistake.

HM, Jr: Well, I disagree with you on that. I am convinced that this thing is entirely due to action and talk by people connected with the Federal Reserve Board. I say that they have got us into this situation and it's up to them to get us out of it. If they do not, I will.

The Secretary then called Tom K. Smith on the telephone, and the following is a record of their conversation:

March 13, 1937
9:45 a.m.

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H.M.Jr: Treasury?

Operator: Yes.

H.M.Jr: See if you can get Mr. Tom K. Smith of St. Louis,
either at his home -

O: Yes.

H.M.Jr: - or at the Boatmen's National Bank. With the differ-
ence in time, he may be home.

O: Yes.

H.M.Jr: Tom K. Smith.

O: All right.

H.M.Jr: Official.

O: Yes.

(Pause)

H.M.Jr: Hello?

Operator: Mr. Smith.

Tom K.

Smith: Hello, Henry?

H.M.Jr: How are you, Tom?

S: Fine.

H.M.Jr: Good for you. Did I get you at home?

S: Yes, I'm just ready to go down town.

H.M.Jr: Had your coffee?

S: Yes.

H.M.Jr: Good for you. A one-way conversation - how do you
interpret what's happened the - this past week in
the Government bond market?

S: Oh, just a reaction to a topic that's been - that
people have been waiting for for a long time.

H.M.Jr: Ah-ha. Has there been any gossip around or any
stories coming out of Washington that has bothered
the people out your way?

S: Well, nothing except the Supreme Court. Of course, that hasn't anything to do with the financing.

H.M.Jr: No, but I mean anything financial.

S: No; no.

H.M.Jr: No gossip stories.

S: It was just too high, Henry.

H.M.Jr: What?

S: Just that the market was too high.

H.M.Jr: Well, I mean how did it all happen to come just after we get through our conversion?

S: Well, I guess they had to have a - well, I'll tell you - I'll tell you my reaction to it, and then you can put me down as a normal person.

H.M.Jr: Perfectly normal.

S: We sold our bonds sixty days ago.

H.M.Jr: You did?

S: Of course, I'm in the bank business to make money -

H.M.Jr: Yes.

S: - and just on - just looking at the market, I sold out, -

H.M.Jr: Ah-ha.

S: - thinking the market was going to go down.

H.M.Jr: Ah-ha.

S: No reason in the world except that I thought the interest rate was too low.

H.M.Jr: Ah-ha.

S: Now that - that's about all I can say.

H.M.Jr: I see. Well, of course, I - I can be in a very philosophical mood, having gotten 96% conversion, and I can sit back and sort of take it easy, but I only got

one or two friends I can call on and you're one of them.

S: Well, I think that - the way I feel about it is - I've got a little cold - can you understand me?

H.M.Jr: I understand you perfectly.

S: The thing will settle down on a lower base and then we'll go along - sail along just as happily as we were before.

H.M.Jr: I see. Well, I wanted to get how you felt about it personally.

S: How are you, Henry?

H.M.Jr: Oh, I'm all right. I'm going to get away tonight for a vacation.

S: ... That's fine. How is Mrs. Morgenthau?

H.M.Jr: She's fine, thank you, and your wife?

S: Yes - all right.

H.M.Jr: Well, take care of yourself.

S: Okay, boy. Goodbye. I'll call you.

H.M.Jr: Thank you. I'm for you.

S: All right, Henry.

H.M.Jr: All right.

S: Bye-bye.

Dr. Burgess: All over the world people think there is going to be an inflation. In face of that you can't keep money rates way down here. A good way to play is to put a dealer on and give him a "put" on us for all the bonds he purchases during the day, allowing him a 32d profit on all purchases made. I don't like to do this thing often, but I would like to do it today. By doing this we would not operate big on the board and the market would not know that we were operating. I think if we use this method, we would give the order today to Devine. They are speculative but clever brokers and the market would not suspect that they were operating for us.

HM, Jr: I cannot be a part of that.

Dr. Burgess: You have done it before.

HM, Jr: Well, then, I did not know about it. I just can't do that. I don't like it.

Dr. Burgess: We have done it time and time again. There is nothing wrong about it.

HM, Jr: This is my policy. You fellows get our orders to buy and sell. I have never told you how to do it or through whom to do it. The responsibility is yours. Do you want to take it?

Dr. Burgess: Why, of course!

At this point, Dr. Burgess left the office and Mrs. Klotz was instructed by the Secretary to make the following a part of the record: "I have thought this thing through very carefully and the smart thing for me to do is to place the entire responsibility on the Federal Reserve Board and insist that they act to take care of this situation through open market operations as the long-term Government bonds began to slip from the day that they announced that they would increase their excess reserves. The day of that announcement was, I believe, the last week in November. I am going to keep repeating that if they do not act, I will, and by that I mean that I will take enough of our sterilized gold, convert it into gold certificates and retire with this money an equal amount of Government bonds from the market."

March 13, 1937
11:50 a.m.

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H.M.Jr: Hello?

Operator: Go ahead.
Bill
Howes: Hello?

H.M.Jr: Morgenthau.

H: Yes, Mr. Secretary. This is Bill Howes.

H.M.Jr: Yes.

H: Jim called me and wanted to know how we were getting along with our Treasury-Post Office appropriation bill.

H.M.Jr: Yes.

H: And he wanted me to call you. Now I've checked here. I was up there for four days before that Appropriation Committee, and we seemed to be getting along here pretty well on ours, and what I wanted to ask you is if you had anything you wanted to tell me and if there is any way I could help in any way.

H.M.Jr: Well, now just a minute. The man's here and I'll ask him. (Pause) They tell me that as far as we know we're all right, but we're not sure. They haven't - the Senate hasn't told us yet what they're going to do.

H: We heard an informal report that they were figuring on - on bringing the thing out of Committee on Monday.

H.M.Jr: Well, we don't know. They keep in touch with Kennedy Rae, the clerk there -

H: Yes.

H.M.Jr: - but we think we're all right.

H: Yes.

H.M.Jr: And I appreciate your calling, and I'm - I'm leaving tonight, and I'll tell them if - if we're not all right to get in touch with you Monday or Tuesday.

H: Yes; well, I'm going to be right here in town, and if anybody representing you calls me up, why I know

most of that Committee, and any way I can help in, I'll be glad to go right up and see them.

H.M.Jr: Thank you very much.

H: Yes, sir.

H.M.Jr: Thank you.

H: All right.

March 13, 1937
11:55 a.m.

Operator: Go ahead.

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

H.M.Jr: Marriner?

E: Yes, Henry.

H.M.Jr: I wondered whether you were alive.

E: Yes, sir. You betcha. We're - (laughs) -

H.M.Jr: What?

E: Very much so. (Laughs) When do you want us to come over? We can come over most any time now. If you prefer to wait until after lunch, or we can come over right now.

H.M.Jr: Well, personally, I'd a little bit prefer it right now.

E: Well, we'll be over there, say, twelve o'clock.

H.M.Jr: Swell.

E: Is that all right?

H.M.Jr: Yes.

E: Do you feel better this morning?

H.M.Jr: I?

E: Yes.

H.M.Jr: Much better.

E: That's good.

H.M.Jr: Yes.

E: All right.

H.M.Jr: You'll be over then?

E: All right.

H.M.Jr: Thank you.

MEETING ON GOVERNMENT BOND
MARKET DECLINE

March 13, 1937
12:15 p.m.

- Present:
- Mrs. Klotz
 - Mr. Lochhead
 - Mr. Taylor
 - Mr. Haas,
 - Mr. Bell
 - Mr. Harris
 - Mr. Eccles,
 - Mr. Harrison
 - Mr. Goldenweiser
 - Mr. Ransom,
 - Mr. Sinclair
 - Mr. Szymczak
 - Mr. Burgess
 - Mr. Morrill

Eccles: Well, we have been discussing the capital market, including the Government bond market and long-term interest rates and balanced budget and price levels, etc. The committee feel that they would be willing to have the Reserve System take over the responsibility for the Government bond market while you are away. They do feel, however, that they should determine, based upon the situation as it may develop, whether or not the portfolio should be increased or whether it can be met by shifts in the portfolio. After all, that is a question of method based upon conditions. But they feel that if the situation warranted it, and it was apparent that the shifting was not adequate to meet it, they would be willing to increase the portfolio.

They would like to avoid increasing it for this reason

H.M.Jr: Do you mind my interrupting you? My going away has nothing to do with it.

Eccles: I know; I was just

H.M.Jr: That was facetious.

Eccles: Yes.

H.M.Jr: I mean the Treasury goes on just the same.

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- Eccles: Well, except that naturally, if you wanted some assurances with reference to this thing - you told me yesterday
- H.M.Jr: Oh, yes.
- Eccles: That's what I meant. Naturally you don't want to leave without some assurances of knowing what the program is.
- H.M.Jr: Yes. The point that I make is I am never away. Since I have been Secretary, I have never been able to get away.
- Eccles: Away from a telephone, huh?
- H.M.Jr: Yes.
- Eccles: There is a question in the minds of the committee as to the effect of increasing the portfolio which would involve making a statement. It would depend upon the interpretation given to it. It may be helpful; it may be all that is necessary. On the other hand, it may have the effect of the market feeling that the situation may be much more serious and requiring drastic action, requiring an increase in reserves, which that would do, when really it fundamentally isn't necessary. I mean it may have that psychology. And, therefore, it is the feeling of the committee that unless it is absolutely necessary to do that, they would think that it was fraught with some hazard to do it.
- Now there's one other point, and I don't know that this expresses the views of all members of the committee, but I would say it was the consensus of opinion that it would be a mistake to pay or set any specific price on a security. In other words, it becomes equivalent to a definite guarantee that you will buy all securities offered at some specified price. That could, of course, involve a tremendous liability if the psychology didn't stop the offerings. I think that question is debatable.
- I think - does that cover it, George?
- H.M.Jr: I don't understand it. Do you mind if I put it this way? How would the people in New York

who have to carry out the orders - how would they carry out the orders interpreting just what you said? What would they do?

- Eccles: They would
- H.M.Jr: Do you mind if I ask them?
- Eccles: They would buy the Government bonds needing the support.
- Szymczak: Dr. Burgess can answer that.
- Eccles: Yes, go ahead Randolph; that's better.
- H.M.Jr: Do you (Burgess) mind interpreting what Eccles said? How would you act?
- Burgess: I would go ahead just as I have been acting, buying good chunks, trying to keep the market steady. I think we could probably hold the two and a halves above par. You can't guarantee that. But we would buy the same kinds of quantities that we have been buying, only we would buy them for the System account instead of the Treasury.
- H.M.Jr: That's what I
- Burgess: We can probably arrange all right to have decreases in the very short stuff to offset purchases of bonds and long notes. If it gets to a point where we can't do it, then we would have to increase the portfolio. Or if the general situation were such that the picture
- H.M.Jr: But the proposal you are making now is that beginning Monday you operate for yourself alone.
- Eccles: That's right.
- Burgess: That's right.
- Harrison: That is, if the Treasury does not want of itself to go into the market for the purpose of investing some funds. I mean we are not trying to propose a plan that deprives you of the opportunity of investing your funds if you want to.

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- H.M.Jr: Well now let me ask another question. Suppose, for example, in two or three or four days next week it is necessary to buy a hundred million dollars' worth of the long terms. Now, do I understand you will continue the same policy of letting bills run off?
- Burgess: (Nods yes.)
- Eccles: Well, of course, a hundred million, if it came over a period of a few days, it would seem to me, certainly it wouldn't entail the necessity of increasing the portfolio. It would depend in part, would it not, Randolph, on how it developed, how they came, whether it looks like an avalanche or merely an orderly selling over a period of time; if the latter, then it could be accomplished by shifts.
- H.M.Jr: Well, I mean who is going to make the decision, if I may ask, whether you are going to increase your portfolio or not?
- Eccles: Well, what we have got to do before we can increase the portfolio - the executive committee has got to authorize the manager of the account, Burgess, to do that, and we've got to get a telephone approval or wire approval of a majority of the full committee.
- H.M.Jr: And you haven't got that?
- Eccles: We haven't got in touch with them.
- H.M.Jr: Then I take it - I mean you don't feel that the situation justifies it.
- Eccles: What we plan on doing is calling a meeting of the full committee to meet here Monday so we could get the necessary authority. In the meantime, they have got authority now to make shifts of a little over a hundred million. Isn't that right?
- Burgess: (Nods yes.)
- Eccles: So you can handle the market on long terms up to a hundred million.

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- H.M.Jr: Well now, why not be a little practical? Supposing on your hundred million, fifty million were two and a halves and two and seven-eighths. What are you going to do?
- Burgess: Take them, put them in the portfolio.
- H.M.Jr: But you people - you don't want to have any particular line on which you are going to
- Eccles: Well, what
- H.M.Jr: Well, just a question - the question you have raised about the two and a halves going below par.
- Burgess: I would interpret that from the operating end that we would be doing just the same as you and I have always done. That is, we have set a point - "Let's see if we can keep that from going below par," - but you don't guarantee that. If you get hit with three hundred million of it, you can't try to hold it there. That is, nobody can hold off a market of thirty-four billion at one given point and guarantee it. But we have always agreed on procedures on that - that we would do the best we can on that.
- H.M.Jr: Why do you people suggest that you do it now without the Treasury?
- Eccles: Well, we don't. We would be tickled to death to have the Treasury come in. It is just a question of - we are willing to do it to that extent, but certainly there is no desire to do it without the Treasury.
- Harrison: That is what I tried to explain a moment ago. I don't think there is anything in what we did that would imply that we would not want to continue the partnership with the Treasury. That was only a suggestion of the maximum that we would be willing to do in the event the Treasury does not want to go along.
- H.M.Jr: I got the impression that you were suggesting the Treasury drop out.
- Harrison: Not at all.

- Eccles: The thought was that if you haven't got funds to invest, then we are willing to take over the entire amount that is necessary to purchase.
- H.M.Jr: Well, you fellows had two hours; give me five minutes. Inasmuch as you are guests, we will step into Mrs. Klotz's room and you people stay here.
- (Secretary and Treasury group leave room for a few minutes and return.)
- H.M.Jr: The Treasury would like to ask the Federal Reserve some questions. We don't feel we understand this picture yet. Question No. 1: What factors will determine the Federal Reserve adding to their portfolio? What are the factors?
- Eccles: Well, it seems to me that it would have to be determined by the effect that the shifting had on the market. If it wasn't tending to meet the problem, then of course I think that we would have to go into the market. That is a thing that we would have to discuss. I don't think you could decide it right at the moment.
- H.M.Jr: Well, let me put it another way, if I may. What is the policy of the Federal Reserve in regard to both short-term interest rates and long-term interest rates?
- Eccles: Well, you have - the policy of course is to maintain easy money. Now, as long as there are substantial excess reserves, or excess reserves, there is no justification for other than easy money. If there were no excess reserves
- H.M.Jr: Now, Marriner, we are trying to get some place.
- Eccles: I know, but I'm trying to answer the question.
- H.M.Jr: I know, but you're not. I'll put it still simpler, I'll put it still simpler. Is the Federal Reserve satisfied to continue to let short-term rates tighten and long-term rates? I'll put it still simpler.

Eccles: Well, we can't control either short-term rates or long-term rates except within a - some variation. We have announced that we are for a cheap money policy, an easy money policy, which means that we expect to continue excess reserves in the banking system. Now, what the rate is going to be - it is something that you can't - you can't fix it. But excess reserves in and of themselves, so far as the short-term market is concerned, will certainly put a - will keep easy money rates.

Now, so far as the rate is concerned, the acceptance rate is still a half, isn't it?

Burgess: Yes.

Eccles: Now that in itself puts a top on your short-term rates that the Reserve System

H.M.Jr: Well, you people announced a policy that you are in favor of easy money.

Eccles: Yes.

H.M.Jr: And you got a steady tightening of money rates. Now I'll try to put it another way. How long is the Federal Reserve going to continue their present policy of letting interest rates tighten?

Eccles: Well, we can't control interest rates. There are other factors. In other words, the budget, of course, is a factor. As I said to you yesterday, with increasing prices, if it continues - if they continue to spiral upward indefinitely, you can't keep low interest and continue to have high prices without having a run-away inflation. You just can't, any more than you can keep low prices and high rates..

H.M.Jr: Well, then, as near as I can make out of this meeting - I will interpret it - you people are perfectly satisfied to let the bill market continue to go off and let the long-term Governments go down, which is - putting it another way, the short-term rates have steadily been tightening since you came out with this official leak the end of November, and the long-term bond market is steadily selling off, and you people won't say to us that you want to do anything to reverse that trend.

Eccles:

I don't think that there is anything we can do to reverse it; that the trend is not justifiable in the long-term market and I think by maintaining an orderly market here that you will stop the trend.

H.M.Jr:

But don't tell us - I mean don't tell us that your announcement of a policy of a continued - to continue long-term money at low rates - that the thing hasn't changed, because it has changed and it is changing every day. And while we realize that there are a great many factors, we here think that a great deal of the responsibility for the change in money rates is the action which you people have taken. Now, all I am trying to find out before I go away is how much longer are you - what is going to be the determining factor? I mean are you going to let the December notes go down to 98, 97, 96? Are you going to let the two and a halves go to 99, 98, 97? I mean how far are you going to let the thing go, and the tightening of both short and long-term money rates, before you people will decide that you have to increase the portfolio. Now, if you don't want to answer me, just say, "Well, Henry, I don't feel I can answer you." But don't kid me.

Eccles:

Of course, the increase in the portfolio means increase in the reserves. If increase in the reserves is necessary to stop increasing interest rates at this time, I certainly would be favorable to increasing the portfolio. I am not - I don't feel at the present time that with the excess reserves that exist it is soon enough to say that we need to further increase these reserves. I don't think the adjustment, the downward trend - no one can say that we haven't got cheap money - that the fact that almost an all-time high rate for bonds goes down two points doesn't mean that it may be a - and the rates are still even with the adjustment that we have had at the present time - are still extremely low. The low rates are still unprecedentedly low. So it doesn't say that the adjustment that has been made has created tight money. You can't say that we don't still have a very easy money situation. But I would say that if they continue to go to a point where it was perfectly evident that we didn't have an easy money situation, I would be favorable to increasing the excess reserves by the purchase of Government securities.

- H.M.Jr: Well, this is the way we feel here. At this time, we don't feel that we have any reason to withdraw from going fifty-fifty with you people on the purchases, for many reasons, which I will go into if you want me to but I'd just as leave not, because I might say something that
- Eccles: Well, we certainly would prefer the partnership.
- H.M.Jr: Well, I want to point out that when we do that it means that we have to either let our balances run off or borrow more money or put gold into the System. I want to point that out. I mean if this thing keeps up indefinitely, we either have to borrow or put more gold into the System. I also want to say that I think - I want to say, without - if I may be very frank, without at all being personal or wanting to be rude - that I am not satisfied with this meeting, if you don't mind my saying so. I mean I don't think that we have met the issue.
- Eccles: What would you
- H.M.Jr: But I am willing to let the thing go along a few more days and see what happens. But I think it is very, very difficult for anybody to say that you are not in the midst of a decided movement, and that we here feel that when that thing gets rolling - and the longer you let both your bills and your Government bonds sell off, the longer that goes on, the more difficult it is to stop it. I mean it is just a matter of market operation. I mean the longer people sell and the more it goes down, the more people get worried. Again and again financial interests have been bearish and I haven't seen it; and I have been bearish and they have been bullish; but this thing begins to roll and it is terribly hard to stop. As I say, I am perfectly willing to go along for a couple days more and see what happens. But I want to point out that I think that, in part due to the step that the Federal Reserve have taken, we have started the movement of increasing money rates, and how far we want to let that go, I don't know. Now, I am willing, as I say, to go along for a couple days more.

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And I don't - I can't agree with your position on commodity prices. Our people believe that the increase in commodity prices is due to the world war scare and not to inflation.

- Eccles: Well, I agree with that. I'm not
- H.M.Jr: And that this inflation move - I mean that the rise in commodities is not due to the move of inflation, but is due to people wanting to buy certain things that they need for war purposes. But I have nothing more. I'd like to ask Taylor or Bell if they want to add anything.
- Taylor: Well, as I understand, there is going to be a meeting of the full committee on Monday, and one of the reasons that you can't have more complete expression today is because you haven't discussed the matter with the full committee. Is that right?
- Eccles: We have got to get authority. We couldn't just - the executive committee are given limited authority. We can't increase our portfolio without the approval of the full committee. And we also have a limit as to the amount of shifting we can do. We have a hundred million of unused authority from the full committee to make shifts. We have used a hundred of it and we have a hundred left. So that we have got to get the full committee to get authority to make shifts beyond a hundred million.
- Taylor: Beyond a hundred million, or to increase
- Eccles: And we have got to get authority to increase the portfolio.
- Taylor: That meeting will be on Monday?
- Eccles: That's what we want to do.
- H.M.Jr: Well, do you - I just - do I understand you are going to ask for that authority on Monday?
- Eccles: Yes, that's what we want the meeting for, so we will have the power to act quickly in case

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- H.M.Jr: Well, I didn't understand. You're going to ask them?
- Eccles: We are going to ask for two authorities. One is to increase the power, or to get an additional power to increase the amount that we can make in shifts from shorts to longs. We, at the present time, can hold six hundred million of longs, and we've got five hundred million. We can shift a hundred million. Now, we want to increase that, I would say, very substantially - at least get the authority to do it. We'd also want to get the authority to increase the portfolio.
- Harrison: Mr. Secretary, may I ask a question?
- H.M.Jr: Please, I've been asking a lot.
- Harrison: And it is a question that is prompted by one of your questions.
- H.M.Jr: Please.
- Harrison: Does the Treasury have any feeling that such rise in interest rates as has taken place has as yet been hurtful to business?
- H.M.Jr: No.
- Harrison: Quite apart from the technical position of the Treasury and the bond market.
- H.M.Jr: I'll answer you. I would say up to now, no. But - and I want to qualify it; I mean I give you a clean cut answer, then I qualify it. If this trend in interest rates, which we think - we don't know - we are in the midst of - if we have many more like your Philadelphia \$130,000,000 refunding go sour Now, I saw three of those - I think it was two years ago in July or August - it went sour and then we had a terrible time. Now, it doesn't take - you fellows may have forgotten the investment bankers who rubbed it in about how little capital they've got to work on and that everything was lovely until they had two or three of these big issues go bad. And I forget the figure a couple of years ago, the working capital of the investment bankers in America - I think it was

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60 or 70 million dollars, but now with their profits, it may be a hundred million. And if these things ever backed up - remember when they were down - down again - the banking laws and all that But there's so many danger signals, George, like that, which just make me very, very cautious. I've been through this now a number of times and I think we've got to watch this thing. You don't need more than three \$130,000,000 issues to back up on the shelves to find ourselves in a very serious thing. And what we don't want, if we can help, is to see this thing begin to slip, because when it slips - I've been through it too often. I don't want to have to go through another fall of '33 or fall of '34. I don't want to do it.

Harrison: Well, I think there are no differences of opinion on that.

H.M.Jr: And we just - we think we are in a trend here. And, as I said yesterday, just simply buying bonds and not changing the position of the Federal Reserve System - just by straight buying we don't believe that that is going to correct it. Now, we may be wrong; I hope we are. I hope we are.

Harrison: The reason that I asked my question was that you asked one which appeared to put us in the position of not knowing what we wanted. I think, speaking for myself - I don't believe that the slight rise in interest rates that has already taken place either in short terms or long terms has as yet - as of today, approached a point that it is hurtful to business. Now, the next question is when do you think that point might be reached? I, for one, don't know, and I doubt if there is anybody who could fairly state today, in the light of conditions as you see them today, at what point you must necessarily say, "They shan't go lower - bonds shan't go lower, or rates shan't go higher."

H.M.Jr: In the first place, we are in a beautiful position and we don't need any money until the 1st and 15th of June, so our interest is the general welfare of the whole financial picture. I mean we are not worried about the bond market. The bonds we have bought we expect to keep until they mature. So

our position is a beautiful one. We are not overbought. The money that we have used is for investment purposes, and the chances are nine out of ten that it will stay there until they come due. That is an important thing to remember.

I don't think any of us ever know when interest rates will be too high so that it hurts business. I think it will be too late. I don't think any of us are smart enough to say that at this particular point that is the case.

And the other point that I want to make is this: We have had a very complicated piece of machinery. We are the only country practically in the world, with the exception of England, that our financial policy - we have gone right ahead. Now, the thing, as I told Marriner yesterday - the thing that I am afraid of is that maybe you have taken the carbureter - maybe you have gotten this mixture a little too rich or too lean, and you may have thrown this thing out of kilter. Certainly up to a few months ago it was running along beautifully.

And again, I can be philosophical about it. I haven't made any statements about interest rates. Eccles has; I haven't. He's made the statement again and again that he wants to see long-term interest rates stay low. He's also made the statement that he didn't think the action that he had taken would have any effect on it.

Harrison: I think he's right.

H.M.Jr: Well, he - well, it isn't what's happened here.

Eccles: I know, but here

H.M.Jr: I mean this is nothing - I mean the thing that is motivating me isn't anything personal or selfish, because I don't have to take back anything I said, because I haven't said anything; and I haven't got any immediate financing problems. So, as far as the Treasury goes, we have never been in a nicer position.

Harrison: Well, I think our interest in the general welfare was equally great. I don't think there is any

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difference in the emphasis that we put on our interest in the general welfare.

H.M.Jr: I agree in that: I think your interests in the general welfare are just the same as ours. But you've also got your own investments.

Harrison: Which would - if we took into account that self-interest, would make us more anxious to keep interest rates low.

H.M.Jr: No. I can't see that.

Harrison: Well, yes. Conversely, if they go up - interest rates go up, our bond portfolio would go down.

Ecclms: Let me explain my position here. For a period of three years, excess reserves have been accumulating, until last summer - and in an amount, of course, which if permitted to get into the credit structure, as they were gradually starting to do, would, of course, have created a volume of money which would have been very inflationary. We reduced the amount of excess reserves at that time, went half way, knowing that the balance was still such that it would do the same thing, but knowing it couldn't - we couldn't go the hundred per cent all at the one time. Now, by moving all the way up, as we have, it is only after you have more money in the country today - more deposits and more currency in circulation - than you had in '29; and we still have, with more money in existence, an excess reserve of \$500,000,000. And that would - upon that could be expanded another substantial volume of credit. So that there is no justification for tight money.

But with the huge pressure of reserves, money got to be practically worthless in the short-term field. With a tenth of one per cent in rates generally as they were, we couldn't expect, without having inflation, to justify or continue rates of that sort indefinitely.

And the long-term rates have gone down from - since you came to the Treasury, a full one per cent or more, haven't they?

H.M.Jr: Yes.

Eccles: And they've gotten down to a level of a half a per cent lower than the Treasury ever financed itself. The Treasury never at any time up until your coming here financed at less than three per cent. So that you have gone one-half a per cent below the lowest level that has ever been in existence in Treasury financing.

Well, whenever you have the interim or the change from that constant down-hill pull that went on for a period here of four years, to a vanishing point in short-term rates and the lowest level in long-term rates that this country has ever seen, and whenever you turn from that point, we can't expect to turn from it and immediately have it go right on a level - on an even keel.

H.M.Jr: May I interrupt you? It isn't the business needs which has made it turn up.

Eccles: What.

H.M.Jr: It isn't business needs which No, it's what you fellows did.

Eccles: But that is psychology; there's plenty of money.

H.M.Jr: I mean you've got locked up now all that

Eccles: No, you've got two billion more than you had in '29, and you've got excess reserves upon which you can expand another six or seven billion without borrowing any money. We haven't locked any of that up. We haven't locked up any money to tighten rates at all.

There is propaganda out to the effect that we are going to lock up - we are going to sell Governments. Two or three of these fellows that are putting out propaganda that what we've got to do to control this price inflation is to sell our Governments off and to create a tight money - now that's what has hurt us. It isn't the actual condition at all, but it is propaganda trying to forecast what we are going to do.

Now I'll say definitely my position as I stated it to the men over there: That I am definitely against

any restrictive credit policy so long as we have unemployed people; that the idea of stopping a price inflation by restricting credit rather than increasing production is wrong. Now that is my statement with reference to easy money. And if it is necessary to get a sufficient amount of money until we can absorb the idle people - as long as you have labor and as long as you have capital, it seems to me that we should not take away that capital so that we keep labor unemployed.

H.M.Jr: Well, if you had said that an hour ago

Eccles: Well listen, if you ask these fellows what I said over there - isn't that what I said, George?

Harrison: Ah-ha.

Eccles: Now that's my feeling with reference to the whole philosophy of the credit and the interest rate structure; with this qualification, and that is that we get a balanced budget and that we begin to retire this Government debt as private credit begins to expand. Otherwise you are going to of course create more money and inflation. But I say that for us to simply continue to put excess reserves in to carry a deficit - I mean we've reached a stage in our recovery where I think that we've got to balance the budget. And if we can't do it out of existing income and we need to make further expenditures, then I'm for more taxes. And that's the one qualification that I've got.

H.M.Jr: Well, we have no difference on what you have been saying the last two or three minutes.

Eccles: All right. But what I said before was nothing that was in conflict with what I have just said.

H.M.Jr: Now - but if I may again say, and I don't want to continue the argument, I think that the action that the System is taking is absolutely contrary to that. Now that is where - I mean what you have said now the Treasury is in complete accord with, but I am fearful that the action you have taken is contrary to what you have just said the last two minutes. That's the whole thing.

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Sinclair: I guess that discussion will never be settled, will it?

H.M.Jr: Well, the next week or two I think will tell the story. Now I am perfectly satisfied to go along as we are and watch this thing and see what happens. Now as I understand it, you are to get the authority. And we are willing to go along. Mr. Taylor is here; I've got a special wire to Georgia and he can get me any time. We'll just go along and see what happens now. Maybe I'm unduly worried; I hope I am.

Burgess: We'll buy fifty-fifty, Mr. Secretary.

H.M.Jr: Yes, we'll continue just as we are; we'll continue just as we are.

If my worries are unjustified, then I will be very pleased.

Burgess: We'll soon find out any way.

H.M.Jr: We certainly - that's one thing I say about this job here: It doesn't take six months to find out whether we've made a mistake; it only takes about a split second. And we can't cover up here; if we are wrong, the world knows it.

But I appreciate it very much and I will say again - and I'd like to say this; this is my closing statement. I think the most important thing of all, above everything else, is that the Federal Reserve and the Treasury move together. I think that is the most important thing. I think the only thing that really would frighten me is that we move in opposite directions.

Eccles: Well, I feel when you say that we move in opposite.....

H.M.Jr: I said if we move

Eccles: Oh.

H.M.Jr: I said if we move.

Eccles: Oh, yes.

H.M.Jr: I said the only thing that would frighten me is if we move in opposite directions.

Eccles: Well, when I can't get together - I told you what my position is.

Harrison: Or isn't.

Eccles: That any time the banking system or central banking system gets in conflict with the Government, why then I'm not going to - there's only one thing for me to do, certainly, if I can't agree, if I feel it so strongly, and that is to get out. And I think that is the only consistent position that anybody can take in a central banking system. I don't look upon it as being apart and independent. It should be independent so far as expressing views, and it should be independent in trying to advise. - I mean free from any political aspect. But if there gets to be a conflict in fundamental monetary or economic policy, then it certainly - always the responsibility is up to the Government, and the Treasury is the financial and fiscal agent of the Government. Now that's my position on it.

H.M.Jr: Well, thank you very much for coming over.

Eccles: We'll see what we can - if you won't be satisfied with the results.

H.M.Jr: I hope I will be.

March 13, 1937

The Secretary spoke to the President at Warm Springs this morning at 11:09 o'clock, and said to him, "How are you, Sir? We are leaving tonight for Sea Island. We have a little snow up here.

"I just want to take a few minutes of your time to tell you what has happened. The last three days we have spent \$75,000,000 keeping the Government bond market orderly. Yesterday it got pretty disorderly.

"I had a meeting last night with Eccles and told him that I felt this constant dropping had been largely brought about by action which they took in increasing excess reserves and that they ought to increase their portfolio, which they have not done since I have been in the Treasury. After a long talk, he agreed and his economist agreed that that is what they should do.

"This morning they are having at the Federal Reserve a tremendous battle because Harrison and Burgess do not think that they should do it. After their meeting is over (Executive Committee of the Open Market Committee) they are coming over to see me. I am taking the position that the move is up to them. All I think we can do is to keep the thing orderly.

"I want to let you know what is happening, because I think it is going to work out all right. If it does not and they refuse to do anything, then I would like to discuss it with you again. From what Eccles said in my office, after a very earnest discussion, I think that they will do something, because just simply buying bonds day after day is not going to correct the thing.

"I think that they tightened up the situation too quickly. I think that they have done too much in too short a time. Our recovery is based on cheap money. The Philadelphia Public Utilities had a \$130,000,000 refunding issue and it went sour. They could not sell it. If enough of those things happen, it might get quite serious.

"I felt it was important enough to call you and tell you this. Would you like me to call you again before I leave and let you know what the results are? What would be a good time?" (The President said 3 o'clock,

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Washington time.) "I think it is going to work out all right."

"Eccles gave me a copy of the memorandum which he gave you at lunch on Thursday. I think he worries too much about things which are outside his own shop.

"We have made a survey of the commodity situation which Eccles is worried about, and our people feel that the rise in commodities is entirely due to war scare and are confined to war commodities and not due to inflation. That is entirely opposite to what he thinks. Nothing we can do here can stop it. We cannot push down the price of tin, copper or cotton. It is not the inflationary thing. That is pretty important. I am not worried about commodity prices. Does that check with you?"

HM, Jr: The President told me to call him back at 3 o'clock, Washington time, and that he had not read Eccles' memorandum which was left with the President on Thursday.

Wednesday
March 17, 1937
1:10 p.m.

Treas.
Operator: Mr. Lochhead and Mr. Taylor are coming in here too.
Are they there?

H. S.
Klotz: Yes, they're here.

T.O.: All right, go ahead.

HMJr: Hello

K: Just a second - do you want to talk to Mr. Taylor?

HMJr: Taylor, yes - or Lochhead, either one.

K: All right.

W. C.
Taylor: Hello

HMJr: Hello, Wayne?

T: Yes

HMJr: How's it going?

T: She's turned up.

HMJr: Yes

T: Quite materially -

HMJr: Well, give me some figures.

T: The oast on the - on two and halves -

HMJr: Yes

T: They hit par - the last sale ninety-nine thirty-one.

HMJr: Yes

T: Two and three quarters - forty-five - forty-five
forty-seven, one-0-two and eight tenths - that's -
there's no sale on that, just twelve fifteenths.

H.M.Jr: Well -

T: Yes

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HMJr: Just tell me, are the two and seven eighths up or down?

T: Two and seven eighths -

HMJr: Since last night?

T: They turned from last night but only four thirty - six thirty-seconds, but they've gone up materially from the lows, you see?

HMJr: I see.

T: All that has happened in the last hour.

HMJr: Yes

T: Now -

HMJr: How much money did you spend?

T: What?

HMJr: How much money did you spend?

T: Seven fifty -

HMJr: How much?

T: About seven - seven million, a little over seven million, but that's total for both of us. I had only half of that.

HMJr: Yes.

T: Now, the dope we get is that some of the New York banks and a couple of insurance companies came into the market.

HMJr: Talk a little louder.

T: A couple of New York banks - of the big banks and at least one insurance company came into the market. Possibly some short covering by dealers.

HMJr: Yes - well, now, Wayne -

T: Yes

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HMJr: You can think this over and talk it over with whoever is left up there, Archie and George - but my feeling is this. If you - let's say you spend ten million today and half of that is five for us, which would bring us down to about forty-two or forty-three million -

T: Yes

HMJr: Well, the way I feel now, I don't feel I've got any right to go - to spend any more cash -

T: Check -

HMJr: from postal savings.

T: Yes

HMJr: I've got to save something. And when I talk to you again at four my thought is to put it up to the Federal Reserve that if we're going to go fifty-fifty tomorrow we either do it with gold or they can go it alone.

T: Check -

HMJr: But I don't feel I have any right to go right down to the bottom because they might get tied and then we'd have no money left.

T: We're thinking exactly the same and I did a little missionary work along those lines all morning. I told them that we were running out of gas and we've had to go - we've had to use gold.

HMJr: Well, I'll see what happens again when I call at four.

T: Yes

HMJr: But if - I don't feel I have any right to spend any more postal savings money; I've got to keep that as a nest egg.

T: Yes

HMJr: And particularly, if I spend postal savings money that means that there's that much less in our bank balance over the week-end -

T: That's right.

HMJr: In case the tax returns do not come in.

T: Right.

HMJr: But, I want -

T: I don't want to tell them about the tax returns yet.

HMJr: No, but you can tell them just what I - I'll wait until four o'clock -

T: Yes

HMJr: And then if this thing keeps up - fifteen or twenty million dollars, I'm through today unless I take the money from gold.

T: Yes

HMJr: And then think over whether we want to take it out of the balance. There's a hundred and eighty odd million free gold in our balance - or whether we want to take it from the sterilized gold.

T: Yes

H.M.Jr: See? - Which we want to use?

T: Yes

H.M.Jr: See?

T: Yes

H.M.Jr: But I don't want to make that decision until four.

T: Yes - In other words, after - you're thinking that after today we're through unless we can use gold?

HMJr: That's right.

T: Yes

HMJr: And you can be talking it over with the boys in the shop and then we can have a little conference when I call up about four.

T: Right.

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HMJr: We can have George - let George talk it over with his own boys.

T: They've been doing a little work on that this morning.

HMJr: Well, are we about together?

T: Yes, absolutely -

HMJr: All right.

T: I think it is - it is extremely interesting that there did - some buying did come into the market.

HMJr: Yes

T: This may - it may be the turn and yet it may not. I mean, you cover in and then if it still looks weak why you'd go ahead and do it again.

HMJr: Well, how are commodities today?

T: Commodities still up but cotton is off a little bit.

HMJr: And how are stocks?

T: Stocks - industrials are up; - rails up -

HMJr: And how about commercial bonds?

T: Commercial bonds up an eighth.

HMJr: Yes - all right, Wayne. Well, then, I'll call again. - Is foreign exchange all right?

T: Foreign exchange is all right. Now, we've got some figures on - Eddy Bartelt is here and he's got some late figures if you want them.

HMJr: I certainly do.

T: Right -

Edward
Bartelt: Mr. Secretary -

HMJr: Yes

B: I gave you this morning a hundred and twenty-five million as the estimated amount for the sixteenth -

That went up five million. Now we have an estimate for today of a hundred and forty million and it looks as though that isn't going to be more than about seventy.

HMJr: Yes

B: Now, we have a balance - we had a balance last night, of a hundred and forty-three million; and with the taxes that'll raise it to two thirteen and we'll have expenditures of about a hundred and thirty-seven which will bring down our balance tonight to about seventy-five million dollars.

HMJr: Yes, but there's other balances.

B: I beg pardon? - Those are the reserve bank balances.

HMJr: What?

B: Those are the reserve bank balances.

HMJr: Yes, but what about the others?

B: Well, we have those. But ordinarily we don't make a call for payment until Monday. But we can clear through New York tonight; that's what we intended to do.

HMJr: Yes, but now, look, the total balances yesterday were about seven hundred million dollars, weren't they?

B: That's right, including the balances in depositaries.

HMJr: Well now, what are they now?

B: They're the same in the depositaries but are - it was six twenty-seven - it's four eighty-four in depositaries and we'll have about seventy-six million in the Reserve banks.

HMJr: Well, give me the net figure, Bartelt.

B: It'll be five hundred and fifty million.

HMJr: Net?

B: Five fifty, yes.

HMJr: What are the net figures?

B: Five hundred and fifty million -

HMJr: Well, why isn't that all right?

B: That's perfectly all right, except that we'll have our calls payable on Monday or on Thursday. And we didn't have a call last Monday for payment today, because the - it looked as though we were going to have a balance of some three hundred and ninety-three million.

HMJr: Well, you figured wrong.

B: Yes, our taxes have fallen off.

HMJr: Well, what are you going to do about it?

B: Well, we're going to clear through New York tonight. And then I suppose I could see Mr. Taylor tomorrow as to what we should do tomorrow.

HMJr: Well, what does that mean?

B: We'll be all right today.

HMJr: Well, what about tomorrow?

B: It may be that we'll need some of the gold.

HMJr: Yes

B: Because that's our only source as I see it.

HMJr: Well, do your homework and I'll talk to you again at four o'clock.

B: All right, sir.

H.M.Jr: Now, - hello?

B: Hello -

HMJr: Figure it so that - the way it looks as though it were the worst, see?

B: Yes

HMJr: Because somebody has certainly done some bum figuring.

B: Yes

HMJr: All right. Now, does anybody else want to say anything?

K: No -

B: No - all right, sir.

K: Hello -

HMJr: Hello -

K: Yes, sir - nobody else has anything to say.

HMJr: All right. Well, Mrs. Morgenthau - when I am through she'll talk.

K: Yes, I'll have to go back into my room.

HMJr: Hello, Mrs. Klotz -

K: Hello -

HMJr: Just a moment -

K: I'll have to go back into my room.

HMJr: All right, I'll wait.

K: Yes

March 13, 1937
1:19 p.m.

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H.M.Jr: Hello?
Jesse
Jones: Hello?

H.M.Jr: Hello, Jesse?

J: Yes.

H.M.Jr: Henry talking.

J: Oh, hello Henry, how are you?

H.M.Jr: Oh, pretty well.

J: Well, I hadn't seen you so long time I just wanted to -
to have a visit with you.

H.M.Jr: Well, that's nice. I wish - did you just get back?

J: We're all so darn busy - no, I've been here all the
time, but my - I never get out of this pesty office.

H.M.Jr: Well, I'm - I'm going South tonight at six o'clock.

J: Where are you going?

H.M.Jr: I'm going down to Sea Island, Georgia.

J: Sea Island?

H.M.Jr: Yes.

J: Ah-ha.

H.M.Jr: And see if I can't get back my sense of humor.

J: Good. What's the matter? Are you worried about your
bond market?

H.M.Jr: Oh, no, bothered a little bit, but the only thing -
a couple of days will tell the story.

J: Ah-ha. Somebody making a raid or something?

H.M.Jr: No; no. Just seems to be -

J: In the air, eh?

H.M.Jr: - in the air.

J: I notice - somebody told me this morning that New
York City bonds were 103 and now they're down a sixth.
How's your man - I mean, what's his name?

H.M.Jr: Magill?

J: Magill.

H.M.Jr: Yes, he'd like to meet you.

J: Yes, I'd like to come over and talk to him some time.

H.M.Jr: Yes. Well, when I get back let's have lunch together.

J: All right. Let's do that without fail.

H.M.Jr: Okay, Jesse.

J: And, incidentally, I'm starting out myself tonight for a week.

H.M.Jr: Attaboy.

J: And - maybe from Monday to Monday - something like that.

H.M.Jr: Yes.

J: See you when you get back.

H.M.Jr: Attaboy.

J: Bye.

H.M.Jr: Bye.

MAR 13 1937

Morning Summary

9.45

WALL STREET IS PLEASED WITH THE SUCCESS OF THE INITIAL FRENCH DEFENSE LOAN OFFERING AS SUGGESTING THAT INTERNAL AFFAIRS IN FRANCE HAVE TURNED FOR THE BETTER - - AT LEAST FOR THE TIME BEING - DECLINE IN U S GOVERNMENT BONDS WITH HEAVY VOLUME DID NOT DISTURB THE STOCK MARKET AND IS GENERALLY TALKED OF IN THE STREET AS TEMPORARY ALTHOUGH SOME OBSERVERS BELIEVE THAT IT WAS AN INDICATION OF CHANGED PSYCHOLOGY TOWARD LOW-INTEREST BEARING HIGH GRADE SECURITIES - OTHERS POINTED TO THE WEAKNESS IN GOVERNMENT ISSUES IN GREAT BRITAIN FRANCE ETC AND SAID THE BREAK IN OUR GOVERNMENTS WAS PART OF THE SAME PATTERN

1.30

MAR 13 1937

FRENCH LOAN

PARIS - FOLLOWING A MEETING OF FRENCH CABINET A COMMUNIQUE WAS ISSUED STATING THAT FINANCE MINISTER AURIOL HAD EXPLAINED TO THE CABINET THE REASON THAT THE INTEREST RATE ON THE NEW DEFENSE LOAN HAD BEEN FIXED AT 4 1-2 PC INSTEAD OF LOWER - THE REASONS HE GAVE HOWEVER WERE NOT DETAILED IN THE COMMUNIQUE

THE EXCESSIVE GENEROSITY IN THE INTEREST RATE HAS RECEIVED WIDE COMMENT - IT IS POINTED OUT THAT AT A 4 PC RATE THE STATE MIGHT HAVE BORROWED 625 000 000 FRANCS MORE THAN IT ACTUALLY HAS BORROWED AT THE SAME ANNUAL COST

A SECOND INSTALMENT OF THE LOAN WILL BE ISSUED ALSO AT 4 1-2 PC IN ORDER TO ENABLE SMALL CAPITALISTS IN THE PROVINCES TO SUBSCRIBE SINCE FIRST INSTALMENT IS BELIEVED TO HAVE

BEEN ABSORBED BY THE LARGER CAPITALISTS WHO WERE ABLE TO MOBILIZE THEIR FUNDS WITHOUT DELAY

THE STATE CONSEQUENTLY WILL BE BURDENED WITH AN ANNUAL INTEREST CHARGE OF 50 000 000 FRANCS MORE THAN WOULD HAVE OTHERWISE BEEN NECESSARY DURING 60 YEARS UNLESS THE LOAN IS CALLED IN AFTER 1942 WHICH THE STATE HAS RESERVED THE RIGHT TO DO - FINANCE MINISTER AURIOL IS ACCUSED OF EXCESSIVE TIMIDITY PROBABLY DUE TO THE FAILURE OF THE TWO PREVIOUS APPEALS BY THE GOVERNMENT FOR FUNDS

IN THE ORIGINAL ALLOTMENTS OF THE LOAN BANKS WERE ALLOWED A COMMISSION OF 1 1-2 PER MILLE - THIS RATE WAS REDUCED ON LATER ALLOTMENTS AND HAS FINALLY BEEN RESTORED

SUBSCRIPTIONS ARE BEING ALREADY ACCEPTED FOR THE NEW INSTALMENT BY POST OFFICES ETC ALTHOUGH OFFICIALLY THE BOOKS DO NOT OPEN UNTIL TUESDAY

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Paris, France, March 14, 1937.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY.

In re. European Narcotic Smuggling Situation.

I have returned from a swing through Holland and Belgium, taking Scharff with me to try to give him some picture of European procedure, which he very much needs in order to get into action here. I covered Amsterdam, The Hague, Rotterdam, Antwerp, and Brussels. The most valuable parts of the trip were the visit to Rotterdam, where I conferred with Einthoven, the head of Dutch Narcotic Enforcement, and the visit to Antwerp. At Rotterdam, I found Einthoven O. K., anxious to cooperate, but confused as to with whom to cooperate since the State Department at Washington had not passed the word along that Wait was now the man in charge. I straightened him out, and assured him that Wait was the man and that things would now go forward in a bigger and better way. He said he felt there was no smuggling out of Rotterdam, but I sold him the idea of finding out definitely by digging us up a good informer whom we would pay. He will be O. K. He had just returned from London, where he conferred with Major Coles, the British narcotic smuggling expert. He said Coles was also confused. I expect I will have to see Coles. At Antwerp, I found Wiley enthusiastic as ever. He said he and Dyar (who is now stationed at Antwerp) were not able to get good informers. I impressed him of the urgency of getting some. If necessary, I will send him one myself to jar the jam loose. Wiley is by far the most intelligent "Customs Agent" we have in Europe, and will get plenty of action by himself, but I want to hurry him up. There is no question but that lots of narcotics are moving out of Antwerp. At Amsterdam, I could get on the trail of no narcotics moving. The Consul General there, Mr. Patton, is trying to sound the situation out. He is very willing to cooperate. At The Hague, I waved the flag of narcotic cooperation at Mr. Emmett, the Minister, a very estimable gentleman. Also at Warden Wilson, the Counselor of Legation, who was so helpful to me in the Dutch alcohol matter. (The Dutch legislation regarding alcohol, he informed me, is just about to go through, in spite of a violent protest from the Rotterdam Chamber of Commerce.) In that connection, Wiley at Antwerp told me that Shaw of Halifax was taking another ship out of Antwerp, with some hint of alcohol being handled. I told him we were interested but not unduly alarmed, since St. Pierre did not open up again. He will watch the situation, however. At Brussels, I talked to the Ambassador, Mr. Morris. He says he will help if the occasion arises, with pleasure. Consul Brett at Rotterdam is also in our corner.

Back at Paris, where I now am, I am proceeding with the big endeavor, namely to get the boys started on producing concrete results,

namely seizures. They now understand that this is a business, that as in all businesses the cash register must ring and register receipts (in this case seizures) or else the business is a flop. They are all anxious to come through, and I think will lay off the general information angle more and hop onto the specific angle. So far, nothing has happened, except that an informer dug up by Beers at Hamburg sicked the German police onto 16 bricks of opium apparently destined for the United States, and the Germans knocked it off. I suspect the bird arrested was a competitor of Beers' informer.)

Birmingham has proved a flop so far. We have not been able to pin him down to anything as yet. Apparently the big Paris assembly of heroin to move to the United States as freight, about which he so enthusiastically wrote to Garland Williams, was largely built up from his own imagination. At present he is in difficulties with the German police. (These police asked Beers for a statement saying Birmingham was working for us. I told Beers "No.") As soon as we can get Birmingham out of Hamburg, we will try him somewhere else, as he appears to be all washed up where he is now.

John Thompson has arrived and we are giving him a try-out. He is watching the gentleman New York is interested in.

Paternitis has been assigned to narcotic work and given the Italian territory. He was formerly our valuation man at Milan. Wait is thinking of transferring another valuation man, now in the Berlin office, over to narcotics. We could use any number of good men. My idea is to have a real agent for narcotics in every principal port in Europe. If we send over any more agents, however, they must be for a permanent status.

Scharff has been sick more or less with a cold ever since we arrived. He finally had to go to bed, but will be well tomorrow and able to start to work.

Mr. Wait, as you know, is subject to heart trouble. He tells me he feels it coming on again, and that it is necessary for him to make his annual monthly pilgrimage to a resort in Central Europe, where he can recuperate and rest. He says he wants to do it now, while I am in Europe to keep my eye on things. I have told him it is O. K. with me, and that if he feels as badly as that, he had better do it without delay. He is going to communicate with Tom Gorman about it.

The boys are all afraid of the Comptroller General's stand about advancing money for governmental purposes (informers). We will have to work it out.

There is plenty to do here. I will continue working to get the boys in under and producing. I have to handle them right, and not get them

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too "jittery," as they are good boys, who, though very inexperienced, can be made to produce. There is no question but what they have a virgin field in which to operate. From the personal carriage of narcotics angle alone, it shows that on every ship there must be one or more crew members who have been carrying the stuff for years. As to what goes on in the freight angle, anybody's guess is good, but we know it must be a way larger than the personal angle.

Respectfully,

THOMPSON.

P. S. Mr. Emmett, Minister at The Hague, sends his best to the Secretary.

PERSONAL.

Moscow, March 15, 1937.

Dear Henry:

Since my arrival I have been making every effort to try to get a line on the gold reserve here. It is practically impossible to get anything definite. It is more or less a military secret which is guarded with care and it is available, of course, as a matter of propoganda to project the idea of their power vis-a-vis Germany and Japan.

From the best information I can get, the situation is about as follows: that the production of the Union of South Africa in fine kilograms is between 325,000 and 350,000; the production of the Soviet Union is approximately 175,000; whereas that of the United States and Canada each is about 100,000. These data come from a study which has been made by the Legation at Riga. The general information here is that the 1936 production of the Soviet Union is considerably in excess of the amount hereinbefore stated and runs between 200,000,000 and 250,000,000 dollars. The gold reserve of the State Bank is stated to be 350,000,000 dollars.

The other day I was privileged to see the collection of treasure and jewels at the State Bank. What surprised me was the size of the gold nuggets. They had two nuggets of solid gold ranging between 40 and 50 pounds each. From their appearance I should judge that they were practically pure gold. There is undoubtedly great wealth in the mountains here. Mrs. Litvinov, who is engaged in teaching in one of the schools of higher education in that region, told Mrs. Davies and me that holidays of school children and in fact picnic parties of the populace

The Honorable

Henry Morgenthau,

Secretary of the Treasury,

Washington.

were generally spent in searching for gold nuggets in the hills with remarkable success. Litvinov told me yesterday that recently while in the mountains he had, in the course of a casual walk, picked up a stone which was remarkably high in gold content.

I am sorry that I cannot get you anything more definite on it but this Government over here is most effective in maintaining its own reticence.

We have enjoyed immensely this experience. It is a fascinating situation to be able to see the forces and the personalities which are engaged in the projection of this tremendous experiment in government in this great laboratory.

They are undoubtedly making remarkable economic progress, and given freedom from entanglement in war, and internal peace, they will make great strides within the next few years. There are many indications that old human nature is working over time and that the pure communistic principles had to be abandoned, at least temporarily, in order to make the machine function and of course the machine has to function to keep the bureaucracy here in power. They are a strong group of men. The situation is a massive conflict between the finest kind of idealism and humanitarian impulse and the most ruthless cruelty in the projection of its means to the end.

I trust that you and your family are well. Mrs. Davies joins in the kindest remembrances to Mrs. Morgenthau and your fine self.

Sincerely yours,

Joseph E. Davies
Joseph E. Davies.

*Please remember me particularly
to your very wonderful mother
and father.*

Monday, March 15, 1937

The Secretary instructed me by telephone that he did not want the 2 1/2s of 1949/53 to break below par today and that regardless of the amount necessary, sufficient purchases should be made to maintain the bonds above par. He had not given this order to the Federal Reserve and only wanted me to advise them of this decision should the price of the 2 1/2s decline to around par.

Prior to the opening of the market orders of \$10,000,000 were given to each of four dealers in government securities -- namely, Discount Corporation, C. J. Devine & Company, First Boston Corporation, and Salomon Brothers & Hutzler -- to purchase Treasury bonds up to 1/32nd above Saturday's closing bid prices, subject to change on notification. Also, the First Boston Corporation was given an order to purchase on the board a small amount of Treasury bonds within the same limitations. Several dealers were called by the New York Bank to ascertain the size of their portfolio and as a result several large blocks were taken from two dealers to relieve the pressure on the market. However, this did little good as heavy selling set in and, although prices were maintained near Saturday's close, the orders were about exhausted by the end of the day.

Purchases amounted to \$44,209,000 and of this amount \$16,910,000 were in the 2 1/2s of 1949/53. In accordance with the agreement between the Treasury and the Federal Reserve System, 50%, or \$22,104,000, were taken by the Treasury for the account of the Postal Savings System.

Long bonds closed the day from off 2/32nds to up 2/32nds, while other issues closed from 1 to 8/32nds lower. Treasury notes were also soft but only moderately active and losses ran from 1 to 7/32nds. Board volume was \$6,070,000.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

March 15, 1937.

OFFICE OF THE CHAIRMAN

My dear Henry:

In order to correct some of the misconceptions and propaganda spread around the markets and doubtless contributing to uncertainty, I felt I should issue as promptly as possible a correction as to my own personal views, and the enclosed statement is the result. I hope it will tend, as I think it will, to relax pressures due to misrepresentation of Reserve System attitude, and I especially hope that it meets with your own approval.

Sincerely yours,

A handwritten signature in cursive script, likely belonging to the Chairman of the Board of Governors, written over the typed phrase "Sincerely yours,".

Honorable Henry Morgenthau, Jr.,
Cloister Hotel,
Sea Island, Georgia.

X-9840

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

For release in morning newspapers
of Tuesday, March 16, 1937.

March 15, 1937

Statement of Chairman Eccles with reference
to his position on credit and monetary policies.

I wish to correct erroneous interpretations which have been circulated with reference to my position on credit and monetary policies.

I have been and still am an advocate of an easy money policy and expect to continue to be an advocate of such a policy so long as there are large numbers of people who are unable to find employment in private industry, which means that the full productive capacity of the nation is not being utilized. Under such conditions, to restrict the available supply of capital and thus to make it difficult, if not impossible, to employ these people would not only be anti-social but uneconomic.

I do not believe that sharp price rises in certain basic commodities should be controlled at this stage of the recovery by a restrictive money policy which would tend to freeze and might bring about an actual reduction in the total volume of employment and production. The price rises to which I refer are the result primarily of non-monetary factors including foreign armament demands, strikes and monopolistic practices by certain groups both in industry and organized labor. These conditions have in turn led to speculative security and commodity buying which serves to accelerate the price advances.

Money must be used as the servant to increase production and employment at home and not to restrict employment and production at a time when the national income is still many billions below what it has been in the past and many more billions short of what it could and should be in the future. Therefore, other means than a restrictive money policy must be used under present conditions to control unwarranted price advances which result in the rise of the cost of living.

-2-

The way to control unjustifiable price advances is by increasing production. This can be done so long as there is idle labor willing to work, so long as there are unused natural resources and an abundance of money at reasonable rates. All three of these conditions are present at this time.

With reference to the volume of money, after the full increase in reserve requirements goes into effect on May 1, there will be more bank deposits and currency in circulation by fully two billion dollars than at the peak of 1928 and 1929. There will also be excess reserves upon which billions of further credit can be extended by the banks without the need for borrowing from the Federal reserve banks. In other words, the supply of money to finance increased production at low rates is ample. Furthermore, with the ample reserves of the Federal reserve banks additional supplies of money can be made available when needed to finance expanded production at reasonable rates by the purchase of government securities in the open market. At the same time, the Reserve System has instruments for controlling directly the diversion of bank credit into security speculation.

With reference to labor, numerically there are still millions of unemployed people able and willing to work and several millions more engaged on public works who could be diverted from public to private payrolls. But there is approaching a special problem of skilled labor shortages developing in certain fields. This situation should be anticipated and met as rapidly as it develops by releasing skilled workers from public to private employment and by vocational and increased apprenticeship training.

-3-

Finally, there was not at the peak of 1929 and there is not now any lack of raw materials and natural resources to furnish the means of production.

Under such conditions, the country needs the full and co-ordinated utilization of the three essential factors of man power, natural resources and capital until we have attained a maximum production and distribution of real wealth in the form of housing, clothing and all other goods necessary to maintain and improve the standard of living of all of our people. It is not sound public policy and it is not in the ultimate interest of either capital, labor, or agriculture for any one of the three groups, broadly speaking, to try to gain an advantage at the expense of the others, which only makes for instability of the national economy and hence is bound to be temporary.

Increased wages and shorter hours when they limit or actually reduce production are not at this time in the interest of the public in general or in the real interest of the workers themselves. When wage increases are passed along to the public, and particularly when industries take advantage of any existing situation to increase prices far beyond increased labor costs, such action is short-sighted and indefensible policy from every standpoint.

Wage increases and shorter hours are justified and wholly desirable when they result from increasing production per capita and represent a better distribution of the profits of industry. When they retard and restrict production and cause price inflation, they result in throwing the buying power of the various groups in the entire economy out of balance, working a

-4-

particular hardship upon agriculture, the unorganized workers, the recipients of fixed incomes and all consumers. The upward spiral of wages and prices into inflationary price levels can be as disastrous as the downward spiral of deflation. If such conditions develop, the Government should intervene in the public interest by taking such action as is necessary to correct the abuses.

The remedy for a price inflation when the country has unused man power, natural resources and capital, is through more, not less production, through an orderly, balanced use of these three fundamental factors and not by creating a needless, artificial shortage of any one of them.

What, then, is the function of the monetary authorities of the Government? It is to help bring about and maintain the essential element of an adequate supply of funds at reasonable rates to call forth and facilitate production and distribution. A policy of easy money in order to make available an adequate supply of capital at reasonable rates cannot, however, of itself succeed in maintaining a stable economy. The Federal Reserve System, which is an arm of the Government, is powerless to maintain a stable economy unless other essential non-monetary factors necessary to stability are brought into line either by private interests or by the Government. The Federal Reserve System has exerted the greatest possible influence to bring about and maintain easy money conditions as a necessary integral part of the recovery movement. An ample supply of funds at reasonable rates exists and will exist after the increased reserve requirements take full effect on May 1. So far as I am concerned, I am convinced that such a supply of funds should continue to be made available at rates that will encourage full re-

-5-

covery and help to maintain it.

Under present conditions of an accelerating recovery, a continued easy money policy to be successful in achieving and maintaining a balanced recovery must be accompanied by a prompt balancing of the Federal budget and the subsequent retirement of public debt by the Government in relationship to the expansion of private credit. I have not been and I am not now in favor of balancing the budget at the expense of the destitute and the unemployed who are unable to find private employment, but I am in favor of increasing taxes on incomes and profits if necessary to sustain the volume of relief and at the same time bring the budget into balance and permit the paying down of public debt as private debt expands. Only by this process can monetary inflation be prevented.

If, in the meantime, however, stable recovery is endangered by unwarranted price and cost increases arising from non-monetary causes, they must be combatted by other than monetary means. To resort to monetary restraints under such conditions would involve the risk of halting recovery and precipitating another deflation before we have recovered from the last one and before the Government is in position to bear the costs of it without causing a monetary inflation.

I cannot favor at this juncture the remedy of "tight money" and high interest rates, to reach special conditions. Such a remedy if invoked now in the attempt to control unjustifiable and monopoly-created prices would result in a reduction of the nation's buying power. Otherwise this remedy would not be effective in bringing prices down. A decline in buying power would, in turn, result in increasing the already large volume of

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-6-

unemployment which would have to be supported out of public funds and in a decrease in the national income, with the consequence that the budget would be thrown hopelessly out of balance.

The remedy lies not in a restrictive monetary policy, but in vigorous government intervention with all the powers at its command to deal directly with the causes that might endanger the progress of a stable and enduring recovery.

With reference to these broad policies in connection with the budget and government finances, the President stated in his budget message in January, "We shall soon be reaping the full benefits of these programs (to combat the depression) and shall have at the same time a balanced budget that will also include provision for reduction of the public debt." And in his radio address on March 9, the President said, "In 1933, you and I knew that we must never let our economic system get completely out of joint again--that we could not afford to take the risk of another great depression. We also became convinced that the only way to avoid a repetition of those dark days was to have a government with power to prevent and to cure the abuses and the inequalities which had thrown that system out of joint. We then had a program of remedying those abuses and inequalities--to give balance and stability to our economic system--to make it bombproof against the causes of 1929."

A policy of monetary restraint at this juncture would be calculated to prevent attainment of this objective of balance and stability in our economic system.

TREASURY DEPARTMENT

Inter Office Communication

March 15, 1937

To Mr. Magill

From Mr. Hass

Subject: Preliminary report on proposed amendments to the Railroad Retirement Act.

Following the conference held in your office on March 8th, Mr. Reagh was directed to make a further study of the cost estimates submitted by Mr. Latimer, chairman of the Railroad Retirement Board, covering proposed amendments to the Railroad Retirement Act, and to submit a report not later than March 22, 1937.

Mr. Reagh and his assistant, Mr. J. S. Brown, have obtained information from the actuarial staff of the Railroad Retirement Board which indicates positively that the cost of the proposed bill was underestimated because of basic assumptions which admittedly are unreasonable and which cannot be justified from any pension fund experience tabulated by the Railroad Retirement Board. Information obtained from the actuarial staff of the Railroad Retirement Board is summarized briefly below.

1. The "differential" of .53 percent of the railroad payroll, estimated to be the annual Federal subsidy which would be required if the railroads were covered under the Social Security Act, was not made by the actuarial staff of the Railroad Retirement Board. Apparently Mr. Latimer himself is solely responsible for this figure and since he is ill it has not been possible to obtain the basis for the estimate.

The actuarial staff of the Railroad Retirement Board is now engaged in making cost estimates of Social Security benefits applied to railroad employees. If necessary we will check these estimates when they are completed.

2. The actuary of the Railroad Retirement Board, Mr. Glenn, admitted that the average retirement age of 70, assumed in estimating the probable cost of service annuities (other than disability) under the proposed bill, was unreasonably high. He stated further that there were no data available which would justify such an assumption.

Calculations which we have made on the cost of Social Security benefits indicate that an assumption of the more reasonable average retirement age of 67-1/2 would result in cost figures at least 20 percent greater than figures based upon an average retirement age of 70. Cost estimates in respect to Title II of the Social Security Act were based upon an assumed average retirement age of 66-1/2.

3. Mr. Lettner stated that the relatively high average age of railroad employees was the principal reason for the "differential" between the cost of Social Security benefits and Social Security taxes, as applied to the railroad industry. In a report prepared by Mr. Lettner's actuarial staff it is pointed out that the tabulations of the railroad employees by age and length of service tended to overstate the average age and the average period of service because many separations from the service had obviously not been recorded.

4. According to Mr. Glenn, that provision in the proposed bill which reduces the tax rates from 7 percent to graded rates equivalent to level rates of about 6.6 percent, was the result of a "last-minute bit of chiseling" on the part of the carrier representatives and, in his opinion, is entirely unjustified.

It is quite evident that the proposed railroad retirement bill cannot be justified on the basis of the cost estimates contained in Mr. Lettner's memorandum. The present Railroad Retirement Act is far from self-supporting on the basis of a 7 percent tax rate and it is extremely doubtful if the proposed bill could be shown to be self-supporting, on the basis of reasonably conservative assumptions, even though (1) the tax rates were left at a level 7 percent, (2) the provision for the refund of 136 taxes were eliminated, and (3) the railroads were required to assume the liability in respect to employees now carried on their own pension rolls.

If the present Railroad Retirement Act should be declared unconstitutional, the railroads would automatically be covered under the Social Security Act. In view of the Administration's policy regarding the so-called Clark Amendment (a bill which would exempt from the provisions of the Social Security Act employers maintaining private pension plans), it would seem only consistent that the railroads should be brought under the Social Security Act. There is nothing in this Act, of course, to prevent the railroads from providing supplementary pensions to their employees. Also, in view of the Treasury Department's insistence that the Social Security Act be self-supporting, it would not be consistent for this Department to approve a separate railroad retirement system on anything other than a self-supporting basis.

/s/ RR

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Monday, March 15, 1937.

Press Service
No. 9-80

Acting Secretary of the Treasury Magill today announced that reports from the Federal Reserve banks indicate that \$483,910,000 of Treasury Notes of Series B-1937, maturing April 15, 1937, have been exchanged for 2-1/2 percent Treasury Bonds of 1949-53.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received and Allotted</u>
Boston	\$ 20,857,700
New York	320,529,500
Philadelphia	3,925,800
Cleveland	12,003,300
Richmond	29,942,100
Atlanta	2,773,300
Chicago	56,996,100
St. Louis	8,683,500
Minneapolis	1,710,800
Kansas City	4,494,700
Dallas	964,700
San Francisco	15,770,200
Treasury	<u>5,258,300</u>
Total	\$483,910,000

ooOoo

RB

GRAY

Paris

Dated March 15, 1937

Rec'd 4 p. m.

Secretary of State

Washington.

361, March 15, 5 p. m.

FROM COCHRAN.

There was fair amount of trading on exchange market today. Bank of France took considerable sterling at 106.41 and 42 but market demand moved rate to 106.43 and 45 and bank did not operate. Rentes rather heavily offered and registered losses around 1.20 francs. Money for the fortnightly official settlement was fixed at $7\frac{1}{2}\%$. With money thus tight prospects are not so good for an anticipated lowering of the Bank of France rate.

Amount of second tranche of national defense loan has not yet been made known but announcement is expected tomorrow. Market observers criticise the decision already published to the effect that price and other terms will be same as in first tranche. This the market interprets as either bad treasury technique (considering the very favorable response

RB

-2- 361, March 15, 5 p. m. from
Paris SECTION ONE

response to the offer of the first tranche) or lack of
confidence. While subscriptions are already being
booked for tomorrow's second tranche bond (TID ONE)

WILSON

CSB

PARTIAL PARAPHRASE OF TELEGRAM NO. 361 of March 15, 1937,
SECTION TWO, FROM PARIS.

of the first tranche are still obtainable at brokers and bankers with their commission thrown in.

In his annual message to the Swiss National Bank, President Bachmann has recommended that the profit resulting from devaluation of the Swiss francs be left provisionally to the bank since so long as the Swiss currency is in unstable equilibrium all available means should be retained for safeguarding the currency and its stabilization.

Berenger in AGENCE ECONOMIZUE and Jenny in LE TEMPS found no ground for surprise or criticism over American attitude toward French request for paying agent considering terms and sense of the Johnson law.

Various writers suggest France may shortly seek definite stabilization of tripartite currencies.

At 11 o'clock this morning I was informed by Cariguel that one million pounds had already been acquired today by the Bank of France. There was not a plentiful supply of dollars, he said. He has sold francs against sterling to about five times the amount of francs against dollars since the arrangements of last week; i.e., for about every dollar he purchases he acquires one pound. Gold is being brought in by domestic holders, he said, but so far this has been in very small lots, principally in coins, and it does not amount to so much. It is his opinion that Frenchmen are holding abroad their large amounts of gold.

These

- 2 -

These amounts are not coming back as (omission) some proceeds therefrom do reach him in sterling which the fund in turn converts into gold on the London market.

END MESSAGE.

WILSON.

EA:LWW

RECEIVED
MAR 10 1937
TREASURY DEPARTMENT
Office of the Director
Federal Reserve Bank of New York

9 00 A M

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MAR 15 1937

-BY U P-

PARIS DISPATCH SAYS THE MINISTRY OF FINANCE
WILL ISSUE A NOTE TONIGHT ANNOUNCING THE SECOND
INSTALLMENT OF THE DEFENSE LOAN TO TOTAL
2 500 000 000 FRANCS TO 3 000 000 000 FRANCS
IT WAS SAID AUTHORITATIVELY- IT WAS EXPECTED
THAT THE BONDS WOULD GO ON SALE TUESDAY MORNING

--

FRENCH GOLD PRICE

1132

PARIS- GOLD PRICE OF THE BANK OF FRANCE
HAS BEEN FIXED FOR TODAY AT 24 336 FRANCS PER
KILO

-0-

MAR 15 1937

MAR 15 1937

PARIS BOURSE *72*

PARIS - THE 7 1-2 PC CARRYOVER RATE ON THE OFFICIAL BOURSE SOMEWHAT DISCOURAGED TRADERS AND MADE MARKET DULL AND WEAK - RENTES WERE DOWN AROUND ONE FRANC WHILE DOMESTIC STOCKS WERE LOWER AND INTERNATIONAL ISSUES IRREGULAR

INACTIVITY INCREASED OWING TO IGNORANCE OF THE AMOUNT AND CONDITIONS OF THE SECOND INSTALLMENT OF THE DEFENSE LOAN WHICH OPENS TOMORROW - IT IS COMMONLY UNDERSTOOD SUBSCRIPTIONS TO THE FIRST INSTALMENT WERE ABOUT 8 000 000 000 FRANCS AND IT IS BELIEVED THE GOVERNMENT IS LIKE-
-LY TO LIMIT THE SECOND INSTALMENT TO 3 000 000 000 OR 3 500 000 000 FRANCS - THE UNISSUED MARGIN AUTHORIZED BY LAW IS 5 500 000 000 FRANCS BUT IT IS POSSIBLE THERE MIGHT BE SOME DIFFICULTY IN PLACING THE ENTIRE AMOUNT AND THE EXISTENCE OF A CONSIDERABLE FLOATING SUPPLY MIGHT DEPRESS THE PRICE WHEN THE LOAN IS LISTED

COMMISSION ON THE FIRST INSTALMENT WAS FIXED AT 1 1-2 PC BUT TODAY BONDS WERE OFFERED FAIRLY FREELY BY BANKERS AT 1 PC

THERE WAS STRONG DEMAND FOR FRANCS IN THE MORNING BUT IT BECAME SLACKER IN THE AFTERNOON WITH LITTLE INTERVENTION BY CONTROL

A 3 000 000 000 FRANC SECOND INSTALMENT
OF THE NATIONAL DEFENSE LOAN WAS OPENED FOR
SUBSCRIPTION IN FRANCE TODAY - FINANCE MINIS-
TER VINCENT AURIOL SAID HE BELIEVED THE
INSTALMENT WOULD BE COVERED BY TONIGHT
-- 8.40 MAR 16 1937

850 --
UNITED PRESS PARIS DISPATCH SAYS THE 3 000
000 000 FRANC SECOND INSTALLMENT OF THE NATION-
AL DEFENSE LOAN PUT ON SALE TODAY WAS RE-
PORTED UNOFFICIALLY TO BE COVERED A LITTLE
AFTER NOON
MAR 16 1937

March 16, 1937

HM, Jr. dictated the following to Mrs. Klotz today:

I talked to Eccles last night and he told me that he had worked on the attached statement all Saturday afternoon, Saturday night and Sunday and might give it out to the press and that he was sending a copy to the President and to me. He told me this the evening he gave out his statement and this morning I read the announcement in the paper.

(HM, Jr. feels that Eccles gave out this statement just to cover their action on excess reserves.)

"I cannot favor at this juncture the remedy of 'tight money' and high interest rates."

ECCLES STATEMENT

American Banker Bureau

Washington, D. C., March 10, 1937. Full text of the statement issued yesterday by Chairman Marriner S. Eccles of the Federal Reserve Board is as follows:

I wish to correct erroneous interpretations which have been circulated with reference to my position on credit and monetary policies.

I have been and still am an advocate of such a policy so long as there are large numbers of people who are unable to find employment in private industry, which means that the full productive capacity of the nation is not being utilized. Under such conditions to restrict the available supply of capital and thus to make it difficult, if not impossible, to employ these people would not only be anti-social but uneconomic.

I do not believe that sharp price rises in certain basic commodities should be controlled at this stage of the recovery by a restrictive money policy which would tend to freeze and might bring about an actual reduction in the total volume of employment and production. The price rises to which I refer are the result primarily of non-monetary factors, including the foreign armament demands, strikes and monopolistic practices by certain groups both in industry and organized labor. These conditions have, in turn, led to speculative security and commodity buying, which serves to accelerate the price advances.

Money must be used as the servant to increase production and employment at home and not to restrict employment and production at a time when the national income is still many billions below what it has been in the past and many more billions short of what it could and should be in the future.

Therefore other means than a restrictive money policy must be used under present conditions to control unwarranted price advances, which result in the rise of the cost of living.

The way to control unjustifiable price advances is by increasing production. This can be done so long as there is idle labor willing to work, so long as there are unused natural resources and an abundance of money at reasonable rates. All three of these conditions are present at this time.

U. S. Money Supply Ample

With reference to the volume of money, after the full increase in reserve requirements goes into effect on May 1, there will be more bank deposits and currency in circulation by fully two billion dollars than at the peak of 1928 and 1929. There will also be excess reserves upon which billions of further credit can be extended by the banks without the need for borrowing from the Federal Reserve banks. In other words, the supply of money to finance increased production at low rates is ample. Furthermore, with the ample reserves of the Federal Reserve banks additional supplies of money can be made available when needed to finance expanded production at reasonable rates by the purchase of Government securities in the open market. At the same time the Reserve System has instruments for controlling directly the diversion of bank credit into security speculation.

With reference to labor, numerically, there are still millions of unemployed people able and willing to work and several millions more engaged on public works who could be diverted from public to private payrolls. But there is approaching a special problem of skilled labor shortages developing in certain fields.

This situation should be anticipated and met as rapidly as it develops by releasing skilled workers from public to private employment and by vocational and increased apprenticeship training.

Finally, there was not at the peak of 1929 and there is not now any lack of raw materials and natural resources to furnish the means of production.

Country Needs Co-operation For Production

Under such conditions the country needs the full and co-ordinated utilization of the three essential factors of man power, natural resources and capital until we have attained a maximum production and distribution of real wealth in the form of housing, clothing and all other goods necessary to maintain and improve the standard of living of all of our people. It is not sound public policy and it is not in the ultimate interest of either capital, labor, or agriculture for any one of the three groups, broadly speaking, to try to gain an advantage at the expense of the others, which only makes for instability of the national economy and hence is bound to be temporary.

Increased wages and shorter hours when they limit or actually reduce production are not at this time in the interest of the public in general or in the real interest of the workers themselves. When wage increases are passed along to the public, and particularly when industries take advantage of any existing situation to increase prices far beyond increased labor costs, such action is short-sighted and an indefensible policy from every standpoint.

Wage and Price Rise

Wage increases and shorter hours are justified and wholly desirable when they result from increasing production per capita and represent a better distribution of the profits of industry. When they retard and restrict production and cause price inflation, they result in throwing the buying power of the various groups in the entire economy out of balance, working a particular hardship upon agriculture, the unorganized workers, the recipients of fixed incomes and all consumers. The upward spiral of wages and prices into inflationary price levels can be as disastrous as the downward spiral of deflation. If such conditions develop, the Government should intervene in the public interest by taking such action as is necessary to correct the abuses.

The remedy for a price inflation when the country has unused man power, natural resources and capital is through more, not less, production, through an orderly, balanced use of these three fundamental factors and not by creating a needless, artificial shortage of any one of them.

What, then, is the function of the monetary authorities of the Government? It is to help bring about and maintain the essential element of an adequate supply of funds at reasonable rates to call forth and facilitate production and distribution. A policy of easy money in order to make available an adequate supply of capital at reasonable rates cannot, however, of itself succeed in maintaining a stable economy. The Federal Reserve System, which is an arm of the Government, is powerless to maintain a stable economy unless other essential non-monetary factors necessary to stability are brought into line either by private interests or by the Government. The Federal Reserve System has exerted the greatest possible influence in bringing about and maintaining easy money conditions as a necessary integral part of the recovery movement. An ample supply of funds at reasonable rates exists and will exist after the increased reserve requirements take full effect on May 1. So far as I am concerned, I am convinced that such a supply of funds should continue to be made available at rates that will encourage full recovery and help to maintain it.

Would Continue Relief; Balance Budget

Under present conditions of an accelerating recovery, a continued easy money policy to be successful in achieving and maintaining a balanced recovery must be accompanied by a prompt balancing of the Federal budget and the subsequent retirement of public debt by the Government in relationship to the expansion of private credit.

I have not been and I am not now in favor of balancing the budget at the expense of the destitute and the unemployed who are unable to find private employment, but I am in favor of increasing taxes on incomes

and profits if necessary to sustain the volume of relief and at the same time bring the budget into balance and permit the paying down of public debt as private debt expands. Only by this process can monetary inflation be prevented.

If, in the meantime, however, stable recovery is endangered by unwarranted price and cost increases arising from non-monetary causes they must be combated by other than monetary means. To resort to monetary restraints under such conditions would involve the risk of halting recovery and precipitating another deflation before we have recovered from the last one and before the Government is in position to bear the costs of it without causing a monetary inflation.

Opposes Tight Money "At This Juncture"

I cannot favor at this juncture the remedy of "tight money" and high interest rates, to reach special conditions. Such a remedy if invoked now in the attempt to control unjustifiable and monopoly created prices would result in a reduction of the nation's buying power. Otherwise this remedy would not be effective in bringing prices down. A decline in buying power would, in turn, result in increasing the already large volume of unemployment which would have to be supported out of public funds and in a decrease in the national income, with the consequences that the budget would be thrown hopelessly out of balance.

The remedy lies not in a restrictive monetary policy, but in vigorous Government intervention with all the powers at its command to deal directly with the causes that might endanger the progress of a stable and enduring recovery.

Quotes President

With reference to these broad policies in connection with the budget and Government finances, the President stated in his budget message in January: "We shall soon be reaping the full benefits of these programs (to combat the depression) and shall have at the same time a balanced budget that will also include provision for reduction of the public debt." And in his radio address on March 9, the President said: "In 1933, you and I knew that we must never let our economic system get completely out of joint again—that we could not afford to take the risk of another great depression. We also became convinced that the only way to avoid a repetition of those dark days was to have a Government with power to prevent and to cure the abuses and the inequalities which had thrown that system out of joint. We then had a program of remedying those abuses and inequalities—to give balance and stability to our economic system—to make it bomb-proof against the causes of 1929."

A policy of monetary restraint at this juncture would be calculated to prevent attainment of this objective of balance and stability in our economic system.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 16, 1937

TO MRS. KLOTZ
FROM MR. TAYLOR

This morning when I spoke to the Secretary he asked me to inform Mr. Early at the White House that Chairman Eccles had not checked with the Secretary regarding the personal statement which he made to the Press last night. On calling the White House I found that Mr. Early was in Florida and therefore gave the information to Mr. Hassett, who is taking care of Press relations in Mr. Early's absence.

The Secretary also asked me to telegraph him the full text of the Eccles' statement, and to obtain a copy of the Resolution of the Federal Open Market Committee granting authority to the Executive Committee to increase or decrease its portfolio. I spoke to Chairman Eccles about this and he forwarded me the enclosed copy of the Resolution, with the understanding that it was for the Secretary's and my confidential information.

act

encl

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



Personal and Confidential

March 16, 1937.

Honorable Wayne C. Taylor,
Fiscal Assistant Secretary,
Treasury Department,
Washington, D. C.

Dear Mr. Taylor:

At the request of Chairman Eccles I am sending you herewith a copy of a resolution adopted by the Federal Open Market Committee yesterday granting certain authority to the executive committee with respect to an increase or decrease in the portfolio of the System open market account. I am advised that this copy is solely for the confidential information of yourself and the Secretary of the Treasury.

Very truly yours,

Robert H. Moore

Secretary,
Federal Open Market Committee.

Confidential

In view of the circumstances discussed by the Committee and reported herein, the Committee, upon motion duly made and seconded, and by unanimous vote, authorized the executive committee to arrange for an increase or decrease in the present amount of securities in the system open market account by not more than \$250,000,000 in the event of an emergency requiring such action before a meeting of the Federal Open Market Committee can be held.

STANDARD FORM NO. 14A
Approved by the President
MARCH 16, 1937

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Page 1.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

RECEIVED MAR 16 AM

HENRY MORGENTHAU JR SECTY TREASURY
CLOISTER HOTEL
SEA ISLAND GEORGIA

I wish to correct erroneous interpretations which have been circulated with reference to my position on credit and monetary policies.

I have been and still am an advocate of an easy money policy and expect to continue to be an advocate of such a policy so long as there are large numbers of people who are unable to find employment in private industry, which means that the full production capacity of the nation is not

being utilized. Under such conditions, to restrict the available supply of capital and thus to make it difficult, if not impossible, to employ these people would not

only be anti-social but uneconomic.

I do not believe that sharp price rises in certain basic commodities should be controlled at this stage of the recovery by a restrictive money policy, which

WAYNE C TAYLOR

1702

TREASURY DEPARTMENT
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Govt paid check to follow

(The appropriation from which payable must be stated on above line)

MARCH 16, 1937

1117

Page 2

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM _____
BUREAU _____
CHG. APPROPRIATION _____

would tend to freeze and might bring about an actual reduction in the total volume of employment and production.

Traces Cause of Price Rise

The price rises to which I refer are the result primarily of non-monetary factors including foreign armament demands, strikes and monopolistic practices by certain groups, both in industry and organized labor. These conditions have in turn led to speculative activity and commodity buying, which serves to accelerate the price advances.

Money must be used as the servant to increase production and employment at home and not to restrict employment and production at a time when the national income is still many billions below what it has been in the past and many more billions short of what it could and should be in the future. Therefore, other means than a restrictive money policy must be used under present conditions to control unwarranted price advances which result in the rise of the cost of living.

The way to control unjustifiable price advances is by increasing production. This can be done so long as there is idle labor willing to work, so long as there are unused natural resources and an abundance of money at reasonable rates. All three of these conditions are present at this time.

Supply of Money Ample

With reference to the volume of money, after the full increase in reserve requirements goes into effect on May 1, there will be more bank deposits and currency in circulation by fully two billion dollars than at the peak of 1929 and 1929. There will also be extensive reserves upon which billions of further credit can be extended by the banks without the need for borrowing from the Federal Reserve Banks. In other words, the supply of money to finance increased production at low rates is ample. Furthermore, with the ample reserves of the Federal Reserve Banks additional supplies of money can be made available when needed to finance expanded production at reasonable rates by the purchase of government securities in the open market. At the same time, the Reserve System has instruments for controlling directly the diversion of bank credit into security speculation.

With reference to labor, numerically there are still millions of unemployed people able and willing to work and several millions engaged on public works that could be diverted from public to private payrolls. But there is approaching a special problem

of skilled labor shortages developing in certain fields. This situation should be anticipated and met as rapidly as it develops by releasing skilled workers from public to private employment and by vocational and increased apprenticeship training.

No Lack of Raw Materials

Finally, there was not at the peak of 1929 and there is not now any lack of raw materials and natural resources to furnish the means of production.

Under such conditions, the country needs the full and coordinated utilization of the three essential factors of man-power, natural resources and capital until we have attained a maximum production and distribution of real wealth. In the form of housing, clothing and all other goods necessary to maintain and improve the standard of living of all of our people. It is not sound public policy and it is not in the ultimate interest of either capital, labor, or agriculture for any one of the three groups, broadly speaking, to try to gain an advantage at the expense of the others, which only makes for instability of the national economy and hence is bound to be temporary.

Increased wages and shorter hours when they limit or actually reduce production are not at this time in the interest of the public in general or in the real interest of the workers themselves. When wage increases are passed along to the public, and particularly when industries take advantage of any existing situation to increase prices far beyond increased labor costs, such action is short-sighted and indefensible policy from every standpoint.

Wage increases and shorter hours are justified and wholly desirable when they result from increasing production per capita and represent a better distribution of the profits of industry. When they retard and restrict production and cause price inflation they result in throwing the buying power of the various groups by the entire economy out of balance. Worsening a particular hardship upon agriculture, the unorganized workers, the recipients of fixed incomes and all consumers. The upward spiral of wages and prices into inflationary price levels can be as disastrous as the downward spiral of deflation. If such conditions develop, the government should intervene in the public interest by taking such action as is necessary to correct the abuses.

The remedy for a price inflation when the country has unused man-power, natural resources and capital is through more, not less, production, through an orderly, balanced use of these three fundamental factors, and not by creating a needless, artificial shortage of any one of them.

What, then, is the function of

the monetary authorities of the government? It is to help bring about and maintain the essential elements of an adequate supply of funds at reasonable rates to call forth and facilitate production and distribution. A policy of easy money in order to make available an adequate supply of capital at reasonable rates cannot, however, of itself succeed in maintaining a stable economy.

Factors in Stability

The Federal Reserve System, which is an arm of the government, is powerless to maintain a stable economy unless other essential non-monetary factors necessary to stability are brought into line either by private interests or by the government. The Federal Reserve System has exerted the greatest possible influence to bring about and maintain easy money conditions as a necessary integral part of the recovery movement. An ample supply of funds at reasonable rates exists and will exist after the increased reserve requirements take full effect on May 1. So far as I am concerned, I am convinced that such a supply of funds should continue to be made available at rates that will encourage recovery and help to maintain it.

Under present conditions of accelerating recovery, a continuing easy-money policy, to be successful in achieving and maintaining a balanced recovery, must be accompanied by a prompt balancing of the Federal budget and the subsequent retirement of public debt by the government in relation to the expansion of private credit. I have not been and I am not now in favor of balancing the budget at the expense of the destitute and the unemployed who are unable to find private employment, but I am in favor of increasing taxes on incomes and profits if necessary to sustain the volume of relief and at the same time bring the budget into balance and permit the paying down of public debt as private debt expands. Only by this process can monetary inflation be prevented.

If in the meantime, however, stable recovery is endangered by unwarranted price and cost increases arising from non-monetary causes, they must be combated by other than monetary means. To resort to monetary restraints under such conditions would involve the risk of halting recovery and precipitating another deflation before we have recovered from the last one and before the government is in position to bear the costs of it without causing a monetary inflation.

Page 3.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM _____

BUREAU _____

CHG. APPROPRIATION _____

U. S. GOVERNMENT PRINTING OFFICE: 1940 10-1728

Would Maintain Balance

Emergency favor at this juncture the remedy of "tight money" and high interest rates, to reach special conditions. Such a remedy if invoked now in the attempt to control unjustifiable and monopoly-inflated prices would result in a reduction of the nation's buying power. Otherwise this remedy would not be effective in bringing prices down. A decline in buying power would, in turn, result in increasing the already large volume of unemployment which would have to be supported out of public funds and in a decrease in the national income, with the consequence that the budget would be thrown hopelessly out of balance.

The remedy lies not in a restrictive monetary policy, but in vigorous government intervention with all the powers at its command to deal directly with the causes that might endanger the progress of a stable and enduring recovery.

With reference to these broad policies in connection with the budget and government finances, the President stated in his budget message in January, "We shall soon be reaping the full benefits of these programs (to combat the depression) and shall have at the same time a balanced budget that will also include provision for reduction of the public debt." And in his radio address on March 9, the President said, "In 1933, you and I knew that we must never let our economic system get completely out of joint again—that we could not afford to take the risk of another great depression.

We also became convinced that the only way to avoid a repetition of those dark days was to have a government with power to prevent and to cure the abuses and inequalities which had thrown our system out of joint. We then set a program of remedying these abuses and inequalities—to restore balance and stability to our economic system—to make it impregnable against the causes of

the policy of monetary restraint at this juncture would be calculated to prevent attainment of the objective of balance and stability in our economic system.

Tuesday, March 16, 1937

The Secretary stated by phone that in view of developments he revised his ideas of support of the bond market and would not attempt to maintain the 2 1/2% bonds at par or better if the pressure developed as on the previous day.

The market at the opening appeared very heavy, with selling inquiries coming into the market from all sections of the country and as a result of this outlook it was decided to move bids down with the market, placing bids where there were no bids but not to attempt to peg prices at any definite point, hoping that in this way an orderly market might be maintained. Accordingly, arrangements were made with four dealers to make purchases, but under the supervision of the Federal Reserve Bank. Though prices declined sharply, trading was orderly and a small amount of outside interest came into the market from time to time but mostly on a switch basis, which for the most part was from long bonds into the notes and short bonds. Losses by Treasury bonds for the day ran from 12 to 28/32nds; Treasury notes were steady at slightly lower prices. Board volume was \$7,290,000. After the close of the market selling continued to come in and prices continued to suffer further losses.

Purchases amounted to \$19,750,000 and in accordance with the agreement between the Treasury and the Federal Reserve System, 50%, or \$9,875,000, were taken by the Treasury for the account of the Postal Savings System.

In connection with this letter, see diary entry of April 15, 1937, viz: H.M., Jr.'s letter to the Attorney General suggesting a conference with the President before any settlement at less than the full tax, penalty and interest is concluded.

Mrs Klotz
I spoke to the Secy
about this letter.
No further letter is
indicated nor is an
acknowledgment, I take
it. It is accordingly
returned to your files

HO
2

3-23-37



Office of the Attorney General
Washington, D.C.

March 16, 1937.

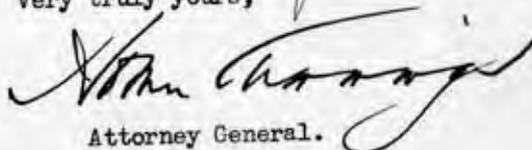
The Honorable,
The Secretary of the Treasury.

My dear Mr. Secretary:

Receipt is acknowledged of your letter of March 11, 1937, inquiring as to the status of the criminal cases involving E. M. Smith, E. M. Smith Company and Walter G. L. Smith of Los Angeles, California.

These cases were postponed to the April term pending consideration of an offer of compromise.

Very truly yours,


Attorney General.

4/7/37

Miss Chauncey:

Previous is filed in
Mr. Oliphant's Office.

May I send this to his
office?

mas

*No report re
sent here
to our
files*

March 16, 1957

TELEGRAM TO THE PRESIDENT

Secretary Mergenthau directs me to advise you that our actuarial computations based on data supplied by Latimer Railroad Retirement Board show rates of tax in proposed Carriers Taxing Act are much too low to meet requirements of proposed Railroad Retirement Act STOP In judgment of Treasury, Budget and Altmeyer Social Security Board, better to continue present Carriers Taxing Act approved February twenty seven STOP Latimer still favors proposed legislation STOP representatives of railroads and brotherhoods planning to have proposed legislation introduced in next few days.

ROSWELL MAGILL

Acting Secretary of the Treasury

RM/egh

Rm

March 16, 1957

TELEGRAM TO THE PRESIDENT

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ROSWELL MAGILL

Acting Secretary of the Treasury

RM/egh

March 16, 1937

HM, Jr. today asked me to call Mr. Ihlder, of the Alley Dwelling Authority for the District of Columbia, and request him to send a letter to Sea Island telling the Secretary two things: (1) what he thinks is the matter with the Wagner bill, and (2) from a sound financial standpoint, what kind of a bill ought we have which would do both slum clearance and low-cost housing.

OFFICE CORRESPONDENCE

DATE March 16, 1937.

CONFIDENTIAL FILE

SUBJECT TELEPHONE CONVERSATION

L. E. Knocks

WITH BANK OF ENGLAND.

Mr. Bolcom called at 10:14 today to report certain conversations which they recently had in London regarding the gold price quoted us daily. As a result of these conversations, he said, he thought it had been decided that they would hereafter establish a buying and selling price with a tentative spread of 2 pence up and down from the price fixed daily in London at 11 a. m. He emphasized that this spread had been chosen entirely at random, also that quite conceivably the planned procedure might prove to be unnecessary, in which case they might revert to the old practice of one price with no margin or a very small margin. The reason for this planned new procedure was that, as they saw it, a major change had come about in the French situation and that they were trying to take time by the forelock. As things looked to them now, it was quite conceivable that there would be a substantial repatriation of French money. The amount of such French money in London, they guessed to be in excess of £300,000,000, partly in the stock market, in bills and in the banks. £300,000,000, he thought, was rather a low estimate; quite possibly the figure was nearer £500,000,000. With the improved conditions in France, they figured they might have to sell substantial amounts of gold to Paris; and that they might have a weaker sterling. The dollar, he thought, might be weak at times and strong at others. At any rate, if the return of capital from London to Paris assumed large proportions, a situation might develop where, in the course of each day, the gold price as fixed every morning at 11 o'clock might reflect the gold value of sterling less and less as time went on.

OFFICE CORRESPONDENCE

DATE March 16, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITHL. W. KockeBANK OF ENGLAND.

- 2 -

As far as France was concerned, they could meet the situation as they had done in the past, by changing their rates during the day if, as and when, the occasion arose. To do that with New York would be too cumbersome and also quite expensive. They were, therefore, going to experiment and quote us separate prices for buying and selling, both based on the gold price as fixed in London at 11 o'clock in the morning. These prices thus quoted us would, as heretofore, continue good for the day. If we at any time found that this new method worked against our operating here or if it in any way prevented a reasonable amount of control, would I be sure to get in touch with him and let him know. This, of course, I promised to do. I asked Bolton, however, whether by any chance our recent operations, which once or twice had been on a rather larger scale, had been contrary to their ideas and wishes. He was very emphatic in saying that they had not been, that they had perfect confidence in us and our judgment and were satisfied that we had operated and would always operate, when we found it necessary to do so.

Bolton then went at length into the present situation in France. Things looked decidedly more hopeful and there was very definitely a possibility of an improvement in the Frenchmen's confidence in their own country. This might well be the cause for the major change in the French situation to which he had referred at the outset and which might well change the whole situation. The French daily gains of foreign exchange probably ranged from 2 to 3 million pounds and the total recovered since the turn came last week might quite

OFFICE CORRESPONDENCE

DATE: March 18, 1937.

CONFIDENTIAL FILE

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

- 2 -

conceivably be £30,000,000. No gold was coming out of hoard in London but he understood that a fair total, although in small parcels, had come out in France, a little also from Belgium but none from Holland or Switzerland. The second tranche of the loan, he understood, had been fully subscribed and the books were expected to close tonight. I asked whether he could explain why the French had chosen to split the loan into three tranches. He thought the reason was, - and there was absolutely no doubt in his mind, - that the whole thing had been done in a very great hurry. After the difficulties with regard to paying agents had developed with Washington and London, the French were unable to decide upon the terms of the loan until midnight before the day it was actually issued. Thus finding themselves in the position where most of the details had not as yet been attended to, they decided upon instalments. The first was an immediate success and was gobbled up by the banks in Paris. The second was promptly issued so as to give the people in the provinces a chance. It was decided to issue it on the same terms and conditions 'in order to avoid a first class row in the Chamber.' The third instalment might conceivably come out on terms more favorable to the Government. However, there was no doubt in his mind but that the third also would go successfully. The way the thing had been handled was really a hopeless muddle. It was a miracle that things had gone so well.

Bolton then said he wanted to tell me ^{of} ~~that~~ ~~two~~ large amounts of Russian gold that were now on the way to us. This was gold, probably new production, which came from Russia and was transhipped in England.

OFFICE CORRESPONDENCE

DATE: March 16, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnakeBANK OF ENGLAND

- 4 -

It was his understanding that it was coming forward in various shipments which in the aggregate might run between 5 and 10 million pounds. £2,000,000 had already been shipped. I questioned him as to what he knew about gold in Russia. He said they believed that there must be at least £200,000,000 in the State Bank of the U. S. S. R. New production, they thought, ran somewhere in the region of 60 to 70 million pounds per year. They had been watching the situation with a great deal of interest for the past two years but it was only last week that they had the first sign of gold actually moving out of Russia.

I asked whether there were any more shipments of gold through the mail. Bolton thought this had apparently stopped largely through the action of underwriters who had decided as a result of communications from agents in New York and other ports, that the insurance rate on such gold should be raised from 1s 6p to 5s. This, he thought, had been effective in stopping mail shipments for the time being.

LWK:KMC

PERSONAL

Paris, March 16, 1937.

My dear Mr. Secretary:

Since returning from Washington I have asked a friend of mine in the Financial Section and Economic Intelligence Service of the League of Nations to provide me with the latest information in regard to the cost of world armament. Today I have received from him a volume, which I am forwarding to you under separate cover, entitled ARMAMENTS YEAR-BOOK 1936, which my friend says was issued a month ago and contains the latest data available. He has promised to provide me with anything further on the subject that may appear at Geneva.

When I was at Basel for the March meeting, I talked with my Belgian and Dutch friends about places to spend a holiday in their respective countries. Within a few days I shall forward you some data on these two countries. It is my understanding that Switzerland would not be of interest.

I have the happy feeling that every decision that you have made since the recent French financial crisis arose is proving correct. The tripartite agreement certainly gave the Blum Ministry something tangible upon which to base a reversal of policy. The franc is saved again, at least for a few months, and France has a chance to catch up with the progress

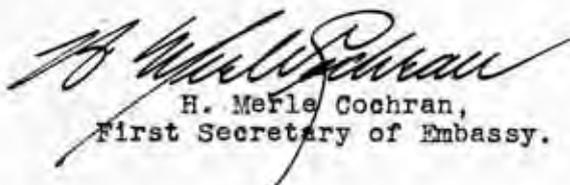
The Honorable Henry Morgenthau, Junior,
Secretary of the Treasury,
Washington, D. C.

in some of the other countries, if only the right policies may be followed. It is too early yet to be overly optimistic.

The NEW YORK TIMES of March 9 carried a telegraphic report from Basel covering the B.I.S. meeting of the preceding day, wherein I was glad to see that President Trip acted on the suggestion which I had given him when I was in Basel on Sunday and had corrected Streit's ideas about dissatisfaction with respect to the handling of our side of the Club arrangements. I am sorry that Streit was not in Basel while I was there or I might have helped him to an even better understanding of the situation.

With very kindest regards, believe me

Faithfully yours,



H. Merle Cochran,
First Secretary of Embassy.

Accompaniment:

ARMAMENTS YEAR-BOOK, 1936.

RB

GRAY

Paris

Dated March 16, 1937

Rec'd 2:34 p. m.

Secretary of State
Washington.

364, March 16, 5:30 p. m. (SECTION ONE)
FROM COCHRAN

JOURNAL OFFICIAL today announced the opening this date of second issue of national defense loan in same terms as first issue. Issue limited to three billion francs. Books will be closed March 25 at latest.

Press intimates that second trench should be quickly subscribed since so many orders particularly from the provinces to the first ~~and~~ tranche could not be filled. Bankers inform me however that they have not yet passed on to their customers as many of the bonds which they originally took as they desire. In addition to yielding their 15 franc commission to purchasers some banks and brokers are today giving a further two franc discount on 1000 franc bonds. Some financial writers share the market view that the technique of the Ministry of Finance has been faulty in getting out the second tranche so quickly after the first.

RB

-2-#364, March 16, 5 p. m. from
Paris SECTION ONE

first. The opportunity has been missed of letting the first issue be quoted and possibly rise above par before the issuance of the second which might have permitted easier terms for borrowing under the second tranche.

As it is money has been quite tight and continued liquidation of other rentes to yield funds for investment in the new issue is expected. Today's rente market showed quotations down or unchanged. Even if second tranche should be quickly subscribed by banks already stocked up with the first issue traders think it will take eight or ten days to liquidate the present congestion on the money market.

WILSON

HPD

RECEIVED
MAR 16 1934
UNITED STATES DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

PARTIAL PARAPHRASE OF SECTION TWO OF NO. 364
of March 16, 1937, from Paris

Exchange market had fair turnover. Control acquired some sterling principally around 106.39 but Lazard operating for Soviets came into market offering higher price and took the pounds offered.

I am told by a Paris-American banker that his deposits have (omission) some since the change in the Blum program, but that the large deposits made during this period have once more been almost completely check out. Such was the case concerning large remittances from Swiss banks in particular. Therefore it is supposed that the repatriation of funds so far has been almost entirely to procure cash to subscribe to the loan, and that as yet there has been no development of a general return of capital for other domestic investment or for depositing with French banks.

After discussing the prospects of the second tranche of the loan Lombard Street editor of LONDON FINANCIAL

END SECTION TWO.

WILSON.

EA:LWW

RB

GRAY

Paris

Dated March 16, 1937

Rec'd 5:13 p. m.

Secretary of State
Washington.

364, March 16, 5 p. m. (SECTION THREE)

NEWS today says:

"notwithstanding the obvious improvement in the French situation it is the height of absurdity to talk about the impending stabilization of the franc. While we should like to think that the tide was now turned definitely in favor of France it will require considerably more than a few days to be able to form a reliable opinion as to whether this is so. It remains to be seen how far the spell of repatriations will continue and how far the 'armistice' concluded between the government and capitalists is the forerunner of an era of genuine cooperation. The extent to which French prices are likely to rise can not as yet be foreseen. Moreover it ought to be borne in mind that in the autumn the French Belga Railway bills and the London credit will fall due for repayment.

It would be a fatal mistake if the French authorities were to

RB

-2-#364, March 16, 5 p. m. from
Paris SECTION THREE

were to allow themselves to be influenced by a few favorable days in favor of an attempt at stabilization. To abandon the right to allow the franc to depreciate if necessary to 43 milligrams of gold would be asking for trouble. The unpegging of the franc was an important step in preparation and it would be a pity to reverse it by restoring the peg, this time reenforced by fixing of a legal parity whether definite or provisional". (END MESSAGE).

WILSON

CSB

RECEIVED
MAR 17 1934
INTERNATIONAL BANKING CORPORATION
NEW YORK

RB

GRAY

London

Dated March 16, 1937

Rec'd 3:20 p. m.

Secretary of State

Washington.

146, March 16, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

With reference to Phillips' remarks on raw material prices given in my 137 March 12, 6 p. m. the following statement recently made by Inskip, Minister for Coordination of Defense, may be of interest. "It has been suggested that the rise in prices is the result of speculators who are grasping at the opportunity which the Government's rearmament program gives them. It is nothing of the sort. The copper required by the Government's rearmament program is only 10 per cent of the copper required in this country. The fact is that there is a world shortage and the good old law, if there was a good old law, of supply and demand is being worked out once more before our eyes resulting in a rise of value".

The view is widely held in the city that the French Government would have been well advised to have waited

before

RB

-2-#146, March 16, 6 p. m. from
London

before issuing the second tranche since their ultimate aim must be an improvement in the French capital market. It is reported that the over-subscriptions to the first tranche are being held and applied to the second and this is regarded in London as "unpleasantly near questionable financing" which may have an unfavorable reaction on the general position.

Mr. Eccles' statement of yesterday has been reproduced in the financial press under such headlines as "United States budget must be balanced to avoid inflation".

London exchange market inactive.

BIRKMAN

CSE

03741318

1946 MAR 16

INTERNATIONAL INFORMATION
DEPARTMENT
OFFICE OF THE DIRECTOR
UNITED STATES DEPARTMENT OF COMMERCE

March 17, 1937

HM, Jr. told me over the phone this morning that he talked to the President (at Warm Springs) last night and told him what was going on. The President did not seem particularly worried.

HM, Jr. also told me that Bullitt got on the phone and said, "Henry, I must see you before I go back to Paris. When do you get back to Washington?" When HM, Jr. told him that he did not expect to get back until the morning of the 29th, Bullitt said, "But I must see you before you sail," so HM, Jr. suggested that he come to Sea Island, but that did not seem to suit Bullitt so HM, Jr. said, "Of course, if you want an excuse to stay longer in America, why I am as good an excuse as any." Bullitt did not like that and said, "Will you see me the first day you get back?" HM, Jr. replied, "Of course, I will. When do you sail?" Bullitt answered, "I am sailing on the 30th."

Wednesday
March 17, 1937
1:10 p.m.

146

Treas.
Operator: Mr. Lochhead and Mr. Taylor are coming in here too.
Are they there?

H. S.
Klotz: Yes, they're here.

T.O.: All right, go ahead.

HMJr: Hello

K: Just a second - do you want to talk to Mr. Taylor?

HMJr: Taylor, yes - or Lochhead, either one.

K: All right.

W. C.
Taylor: Hello

HMJr: Hello, Wayne?

T: Yes

HMJr: How's it going?

T: She's turned up.

HMJr: Yes

T: Quite materially -

HMJr: Well, give me some figures.

T: The last on the - on two and halves -

HMJr: Yes

T: They hit par - the last sale ninety-nine thirty-one.

HMJr: Yes

T: Two and three quarters - forty-five - forty-five
forty-seven, one-0-two and eight tenths - that's -
there's no sale on that, just twelve fifteenths.

HMJr: Well - -

T: Yes

-2-

HMJr: Just tell me, are the two and seven eighths up or down?

T: Two and seven eighths -

HMJr: Since last night?

T: They turned from last night but only four thirty - six thirty-seconds, but they've gone up materially from the lows, you see?

HMJr: I see.

T: All that has happened in the last hour.

HMJr: Yes

T: Now -

HMJr: How much money did you spend?

T: What?

HMJr: How much money did you spend?

T: Seven fifty -

HMJr: How much?

T: About seven - seven million, a little over seven million, but that's total for both of us. I had only half of that.

HMJr: Yes

T: Now, the dope we get is that some of the New York banks and a couple of insurance companies came into the market.

HMJr: Talk a little louder.

T: A couple of New York banks - of the big banks and at least one insurance company came into the market. Possibly some short covering by dealers.

HMJr: Yes - well, now, Wayne -

T: Yes

HMJr: You can think this over and talk it over with whoever is left up there, Archie and George - but my feeling is this. If you - let's say you spend ten million today and half of that is five for us, which would bring us down to about forty-two or forty-three million -

T: Yes

HMJr: Well, the way I feel now, I don't feel I've got any right to go - to spend any more cash -

T: Check -

HMJr: from postal savings.

T: Yes

HMJr: I've got to save something. And when I talk to you again at four my thought is to put it up to the Federal Reserve that if we're going to go fifty-fifty tomorrow we either do it with gold or they can go it alone.

T: Check -

HMJr: But I don't feel I have any right to go right down to the bottom because they might get tied and then we'd have no money left.

T: We're thinking exactly the same and I did a little missionary work along those lines all morning. I told them that we were running out of gas and we've had to go - we've had to use gold.

HMJr: Well, I'll see what happens again when I call at four.

T: Yes

HMJr: But if - I don't feel I have any right to spend any more postal savings money; I've got to keep that as a nest egg.

T: Yes

HMJr: And particularly, if I spend postal savings money that means that there's that much less in our bank balance over the week-end -

T: That's right.

HMJr: In case the tax returns do not come in.

T: Right

HMJr: But, I want -

T: I don't want to tell them about the tax returns/^{as} yet.

HMJr: No, but you can tell them just what I - I'll wait until four o'clock -

T: Yes

HMJr: And then if this thing keeps up - fifteen or twenty million dollars, I'm through today unless I take the money from gold.

T: Yes

HMJr: And then think ^{There's} over/whether we want to take it out of the balance. / a hundred and eighty odd million free gold in our balances - or whether we want to take it from the sterilized gold.

T: Yes

HMJr: See? - Which we want to use?

T: Yes

HMJr: See?

T: Yes

HMJr: But I don't want to make that decision until four.

T: Yes - In other words, after - you're thinking that after today we're through unless we can use gold?

HMJr: That's right.

T: Yes

HMJr: And you can be talking it over with the boys in the shop and then we can have a little conference when I call up about four.

T: Right.

RMJr: We can have George - let George talk it over with his own boys.

T: They've been doing a little work on that this morning.

RMJr: Well, are we about together?

T: Yes, absolutely -

RMJr: All right.

T: I think it is - it is extremely interesting that there did - some buying did come into the market.

RMJr: Yes

T: This may - it may be the turn and yet it may not. I mean, you cover in and then if it still looks weak why you'd go ahead and do it again.

RMJr: Well, how are commodities today?

T: Commodities still up but cotton is off a little bit.

RMJr: And how are stocks?

T: Stocks - industrials are up; - rails up -

RMJr: And how about commercial bonds?

T: Commercial bonds up an eighth.

RMJr: Yes - all right, Wayne. Well, then, I'll call again. - Is foreign exchange all right?

T: Foreign exchange is all right. Now, we've got some figures on - Eddy Bartelt is here and he's got some late figures if you want them.

RMJr: I certainly do.

T: Right -
Edward
Bartelt: Mr. Secretary -

RMJr: Yes

B: I gave you this morning a hundred and twenty-five million as the estimated amount for the sixteenth -

That went up five million. Now we have an estimate for today of a hundred and forty million and it looks as though that isn't going to be more than about seventy.

HMJr: Yes

B: Now, we have a balance - - we had a balance last night, of a hundred and forty-three million; and with the taxes that'll raise it to two thirteen and we'll have expenditures of about a hundred and thirty-seven which will bring down our balance tonight to about seventy-five million dollars.

HMJr: Yes, but there's other balances.

B: I beg pardon? - Those are the reserve bank balances.

HMJr: What?

B: Those are the reserve bank balances.

HMJr: Yes, but what about the others?

B: Well, we have those. But ordinarily we don't make a call for payment until Monday. But we can clear through New York tonight; that's what we intended to do.

HMJr: Yes, but now, look, the total balances yesterday were about seven hundred million dollars, weren't they?

B: That's right, including the balances in depositaries.

HMJr: Well now, what are they now?

B: They're the same in the depositaries but are - it was six twenty-seven - it's four eighty-four in depositaries and we'll have about seventy-six million in the Reserve banks.

HMJr: Well, give me the net figure, Bartelt.

B: It'll be five hundred and fifty million.

HMJr: Net?

B: Five fifty, yes.

HMJr: What are the net figures?

B: Five hundred and fifty million -

HMJr: Well, why isn't that all right?

B: That's perfectly all right, except that we'll have our calls payable on Monday or on Thursday. And we didn't have a call last Monday for payment today, because the - it looked as though we were going to have a balance of some three hundred and ninety-three million.

HMJr: Well, you figured wrong.

B: Yes, our taxes have fallen off.

HMJr: Well, what are you going to do about it?

B: Well, we're going to ^{could} clear through New York tonight. And then I suppose I'll see Mr. Taylor tomorrow as to what we should do tomorrow.

HMJr: Well, what does that mean?

B: We'll be all right today.

HMJr: Well, what about tomorrow?

B: It may be that we'll need some of the gold.

HMJr: Yes

B: Because that's our only source as I see it.

HMJr: Well, do your homework and I'll talk to you again at four o'clock.

B: All right, sir.

HMJr: Now, - hello?

B: Hello -

HMJr: Figure it so that - the way it looks as though it were the worst, see?

B: Yes

HMJr: Because somebody has certainly done some bum figuring.

B: Yes

HMJr: All right. Now, does anybody else want to say anything?

K: No -

B: No - all right, sir.

K: Hello -

HMJr: Hello -

K: Yes, sir - nobody else has anything to say.

HMJr: All right. Well, Mrs. Morgenthau- when I am through she'll talk.

K: Yes, I'll have to go back into my room.

HMJr: Hello, Mrs. Klotz -

K: Hello -

HMJr: Just a moment -

K: I'll have to go back into my room.

HMJr: All right, I'll wait.

K: Yes

RB

GRAY

Paris

Dated March 17, 1937

Rec'd 2:25 p. m.

Secretary of State

Washington.

369, March 17, 4 p. m.

FROM COCHRAN.

Minister of Finance last night announced that three billion franc limit had been passed and the JOURNAL OFFICIEL this morning carried decision closing on evening of March 16 subscriptions to second issue of national defense loan. No announcement made as to issuing of a third tranche of 2,500,000,000 francs to utilize balance of authorization but market thinks this may be delayed until summer.

Serious political riot in Clichy last night has badly hurt the immediate outlook. The new bonds were offered today at discount of 21 francs per thousand with no takers. Other rentes are down 90 centimes to 1.60 francs. Exchange market was very nervous with dollar and sterling in demand most of the day and with both spot and forward francs quoted lower. Belge at export gold point.

AGENCE ECONOMIQUE today refers to London press suggestion that

RB

-2-#369, March 17, 4 p. m. from
Paris

that Chairman Eccles statement in favor of continuation of
easy money and in regard to price rise in basic commodities
indicate that an informal Anglo-American understanding on
price levels, possibly including France, may be considered
to be a corollary of the tripartite exchange agreement.

WILSON

HPD

RECEIVED

MAR 17 1944

INTERNATIONAL TRADE
COMMISSION
WASHINGTON, D. C.

COPY

TREASURY DEPARTMENT
Inter Office Communication

March 17, 1937

TO Mrs. Klotz
From Mr. Taylor

After the meeting in the Secretary's office this afternoon, at which we talked to him on the telephone, I called Vice Chairman Ransom of the Federal Reserve Board and Vice President Burgess of the New York Federal Reserve Bank and told them that the Treasury was willing to continue the joint account operations for an additional 14 million, which represented the total available for investment in our various trust funds, and that after this amount was exhausted we would rediscuss the entire question of gold, etc.

(Initialed) W. C. T.

Wednesday, March 17, 1937

Due to further decline in prices after the close on Tuesday, little buying was done at the opening of the market as a price level was almost impossible to determine. The same policy as yesterday, that is, purchasing on a down-scale with the idea of keeping the market orderly, was followed -- buying was continued through four dealers. Prices dropped rapidly from 10:30 to about 11:30, after opening 2 to 10/32nds lower, until losses of 1/2 point to slightly more than 1 point were established. Selling was general, possibly exceeding the magnitude of the previous day. Around midday quotations rallied considerably and price advances were about as spectacular as the decline, sometimes advancing 1/8th of a point or more between sales. In the early afternoon the market relaxed again but closing prices were generally 8 to 12/32nds above the lows of the day, generally 1/2 point to about 3/4 of a point off from yesterday, apart from the shortest issues which were relatively steady and recorded only small losses. The note market was steady and the intermediate and long maturities closed 1 to 4/32nds up; the short maturities were unchanged. Considerable switching into the notes and short bonds from the long bonds was again reported. Combined purchases amounted to \$18,242,000 miscellaneous Treasury bonds. In accordance with our agreement with the Federal Reserve Bank, 50% of this amount -- or \$9,121,000 -- was for the account of the Postal Savings System. Board volume totaled \$9,120,000.

Wednesday
March 17, 1937
5:00 p.m.

Archie
Lochhead: Hello
Treas.
Operator: Mr. Lochhead?
L: Yes
T.O.: The Secretary - go ahead.
L: Hello
HMJr: Hello, Archie
L: Yes, sir
HMJr: Have you got all the machinery working?
L: All the machinery is working and everybody is here.
HMJr: Good -
L: Now, do you wish to speak to Mr. Taylor first?
HMJr: Mr. Magill first.
L: Mr. Magill first - just a second.
Roswell
Magill: Hello
HMJr: Hello,
M: Yes
HMJr: Am I on the air?
M: You're on the air.
HMJr: I can't even belch, huh?
M: (Laughs) No, be very careful.
HMJr: All right.
M: Well, I talked to the young man and he hasn't talked
to the President since last Thursday.
HMJr: Last Thursday?

-2-

M: Yes, that's before the President left.

HMJr: Yes

M: So that's that.

HMJr: Well, what did -

M: And I asked him how this statement happened to come out this morning, I'd asked him that before. And he said, Well, they had just reached an agreement last night.

HMJr: Oh -

M: But that doesn't sound so good to me.

HMJr: Well, why should they reach an agreement without consulting us first.

M: Well, that's the point that he never can make clear. I've - went all over that with him at some length.

HMJr: Yes

M: He - it just didn't occur to him that he should talk to the Treasury.

HMJr: Yes

M: I gave him - I gave him our statement and I told him I - it seemed to me that it was about as mild as we could make; that if we didn't make such a statement as that we were going to be taken as approving it and how could we approve it in view of the conference that we had yesterday.

HMJr: Yes

M: So that's about the way it is.

HMJr: Well, as far as I am concerned, I am tickled to death you did it.

M: Well, I think we're all right. Herman suggested that it might be a good idea to talk to Vinson. Do you see any harm in that?

HMJr: To Vinson?

-3-

M: Yes

HMJr: Oh, I don't think I'd - no, I don't agree with him. I wouldn't go beyond Doughton.

M: You wouldn't?

HMJr: No

M: Yes

HMJr: No

M: Conceivably they may ask Vinson to introduce the bill. I don't know whether they will or not.

HMJr: No, I - I think that Doughton might say, "Well, why isn't Magill satisfied to talk to me."

M: Yes - he - I wouldn't want to do it, I -

HMJr: What was your hunch?

M: Well, my hunch was not to do it, except possibly - I wouldn't do it in any other way than possibly this; I'd - it's conceivable - I think it might be all right to call up Doughton in the morning after we see what the newspapers say, and simply say that there has been a report that Vinson will introduce the bill and how would it be for me to see him and Vinson together.

HMJr: Oh -

M: But, I don't know, I'm perfectly willing to leave it, as far as I am concerned.

HMJr: No, all - what I would - I'd suggest something different.

M: Yes

HMJr: I would call up Parker in the morning.

M: I've already done that. (Laughs)

HMJr: And tell Parker to be sure and keep in touch and let you know what's going on.

M: I've already done - I did that this afternoon before I talked to you.

-4-

HMJr: Well, that's all.

M: So I think that we've got it covered that way.

HMJr: No, I'd sit tight. We've taken a little risk and I wouldn't - I wouldn't put my neck out any further.

M: Yes, yes -

HMJr: See?

M: Yes

HMJr: I mean, Doughton was friendly, approved it as chairman; you've contacted Parker; I'd sit tight and see what happens.

M: All right, that's what we'll do.

HMJr: Yes

M: Now, who do you want?

HMJr: Taylor, please -

M: All right.

W. C. Taylor: Hello

HMJr: Hello

T: Ah -

HMJr: Well, what have the master minds decided?

T: Well, the master minds have decided first that at this particular point why the twenty-four hour thing - not so good.

HMJr: Yes

T: That you shouldn't do that until after you have talked to the President.

HMJr: No, I don't - I don't want to talk to the President until tomorrow on account of not knowing what the tax returns are.

T: Well, I think that's part of it, but as of today we can tell the Federal that we've got fourteen million left, to invest.

-5-

HMJr: What?

T: That we've got fourteen million left -

HMJr: Yes

T: That goes down to twenty-five.

HMJr: Yes

T: And after that, unless we wish to feel that the situation demands an alteration in the general monetary picture, we're through.

HMJr: Well, I - now, wait a minute, you're getting - you're a little bit vague for me. Let's say this is - tomorrow night is Thursday, isn't it?

T: Yes

HMJr: What?

T: Yes

HMJr: All right, now Thursday night they'd send out fifteen million, then what?

T: We're through.

HMJr: You're through?

T: Yes - unless you want to go the whole hog.

HMJr: Don't you want to give them the alternative?

T: What?

HMJr: Don't you want to give them the alternative?

T: No -

HMJr: Why?

T: Because it would probably be on the wrong basis.

HMJr: Which is the wrong basis?

T: Well, the wrong basis would be that we're feeding gold in because our balances are running down and that we're much more inflationary, et cetera, you see?

Now, if you do it on the basis of monetary policy that you do not agree -

HMJr: Yes

T: - that it's necessary to ease the situation, it has to be done for that reason and not because the Treasury's short of cash.

HMJr: Say that again.

T: We can take the position that we think the money picture should be eased -

HMJr: Yes

T: And that we will feed gold into - into the system. But for the reason that it should be eased and not because the Treasury's short of cash.

HMJr: I see. You mean you'd go the whole hog?

T: Yes - If you don't - if you don't do that it puts it on the wrong basis.

HMJr: Well, I think - I think that certainly we ought to give them twenty-four hours, but I wouldn't want to give them a twenty-four hour notice tomorrow.

T: No

HMJr: No, I think you ought to tell them tonight.

T: Well, I think we ought to tell them tonight that we're all through after the fourteen million, you see?

HMJr: No, and then - and then we don't know what we'll do.

T: Right -

HMJr: No, I'd give them a twenty-four hour notice tonight on the monetary too, but not hinting anything beyond a - "We're serving notice, we don't know". What harm can there come from that? Listen, supposing the bonds - those two and a halves drop another point tomorrow, I don't want to wait until Monday to act.

T: Well, you're thinking in terms of seeing the President tomorrow, or after - the day after that?

HMJr: Well, I've sent for my plane -

T: Yes

HMJr: I may - I haven't made up my mind - I may talk to him tonight, I don't know. I haven't got much to tell him, see?

T: Yes

HMJr: See?

T: I think another day's - another day's figuring would - would help.

HMJr: I - I may wait.

T: Yes

HMJr: But in any case I wouldn't see him until tomorrow afternoon.

T: Right

HMJr: Let's say I'd see him tomorrow afternoon. Then I've got to give twenty-four hours notice, then I can't act until Saturday.

T: I don't get the twenty - we don't get the twenty-four hours notice business.

HMJr: The twenty-four hour notice is this, you reminded me that we agreed with them that we'd go along -

T: Yes

HMJr: - without sterilizing gold at this time.

T: Right

HMJr: I want to tell them tonight that beginning tomorrow night, twenty-four hours from now, I may wish to discuss that with them.

T: I don't think you have to give them twenty-four hours notice on that.

HMJr: Oh, well, if you don't think I have to - -

T: No, no -

HMJr: All right -

T: Yes - that's what we were talking about.

HMJr: No, I thought you felt that it was a gentlemen's agreement I'd have to keep - that I couldn't say tonight I wanted - well, let's say tomorrow night, tell them that beginning Friday morning I'm going to begin to use my gold.

T: You've got to talk to them about that, but I don't - I think saying twenty-four hours, why - is unnecessary. You can talk to them anytime.

HMJr: All right. Do the others agree with you?

T: Yes

HMJr: All right. Well, then, now let's understand each other. You're going to call them now and say whenever the fifteen million is spent we're through?

T: Yes

HMJr: And you also - that I feel free, at any time I can call up these fellows when the fifteen million dollars is gone and say, "Now, listen, fellows, I don't like the way you're handling this thing, I don't like - you've raised excess reserves too quickly, and I am going to step in and let gold - a hundred, two or three hundred million in gold flow back into the system."

T: Check -

HMJr: What?

T: Check -

HMJr: But I don't you want to tell me now that I've got to put on my white spats and get my cane out and my yellow gloves.

T: All right. You haven't even got them with you, have you?

HMJr: No, and I don't own any.

T: Yes

HMJr: Yes - O.K.

T: Ah -

HMJr: No, I haven't - all - I can call up the President and tell him I'm worried and that I've given them this notice. Then he'd say, "Well, what are you going to do?"

T: Yes

HMJr: And, I think that - I think I'm thinking clearly, that there are two worries: one is the bond market and one is the taxes.

T: Yes

HMJr: They don't necessarily go together.

T: That's right.

HMJr: See? - the two things don't necessarily follow.

T: Right

HMJr: Although he could make one statement which would take care of both situations.

T: No - the bond market is the only thing that you can make a statement about.

HMJr: Yes, I can't make it as yet.

T: Well, whoever it is that makes it.

HMJr: Yes - hello?

T: What?

HMJr: He can make - he's just got to make about a ten word statement.

T: Well, and how long, as I say, but it's -

HMJr: No, if the taxes don't come up to expectations I will ask for additional taxes in order to balance the budget, period.

T: Yes.

HMJr: That's all.

T: That's an onion.

HMJr: That takes care of the bond market too.

T: It might; there's some doubt about that.

HMJr: Well, it'd go a long way.

T: If the money policy, the credit policy, is too tight you've got to do something else to - to alter that. That - the first one would not take care of the bond market.

HMJr: No, well, do you think that it's too tight?

T: I don't know yet.

HMJr: No, neither do I. But what I told them about monkeying with a carbureter I think is right.

T: Right.

HMJr: I don't know whether it's too rich or too weak.

T: All right. I'm a little encouraged by the bounce; it's the first one that we've had.

HMJr: What's that?

T: I'm a little encouraged by the bounce that we got today; probably because it was the first one we've had.

HMJr: Yes.

T: But there was a pretty bounce, really.

HMJr: Yes.

T: And the feeling after the close apparently was even better.

HMJr: Yes.

T: In markets out towards the Coast and so on, which keep open, you know?

HMJr: Yes.

T: - all signs showed better than the close.

HMJr: Good - yes, well that could get better and that still wouldn't take care of our tax situation.

T: No, it wouldn't take care of it at all.

HMJr: No - well, I think there's all the more reason to wait then until - until tomorrow noon.

T: Until tomorrow noon?

HMJr: Well, I mean, before I see the President or call him up.

T: I don't think you've got anything to talk to him about until you've seen another day here.

HMJr: No.

T: From both standpoints.

HMJr: All right. Anybody else want to say anything to me?

T: Just a minute. Larry Seltzer wants to talk to you.

HMJr: All right. Hello?

Larry Seltzer: I think that even if the Government bond market comes back pretty nicely -

HMJr: Yes, Seltzer -

S: - that doesn't take care of the corporate markets -

HMJr: Yes.

S: - which are very sticky. And I think it's very important from the standpoint of general recovery -

HMJr: Yes.

S: - to ease that market.

HMJr: Yes.

S: I think that's much more important than these speculative rises in war commodities.

HMJr: Yes

S: So I'd like to see gold pumped out anyhow.

HMJr: Gold what?

S: I'd like to see you using your inactive gold, -

HMJr: Yes

S: - anyhow - to add it to your balance

HMJr: Yes - You'd like me to use the inactive gold?

S: Beg pardon?

HMJr: You prefer me to use the inactive?

S: Yes

HMJr: Yes

S: I think it would have a very favorable effect, that is, Eccles' statement, well, it fell like a dud or even worse.

HMJr: It fell like what?

S: It fell like a dud .

HMJr: Yes

S: It was a dud . What the market wants is a little action.

HMJr: We've just had the wrong effect.

S: Yes, very definitely.

HMJr: Yes

S: I think if the market saw that the Administration was determined to have low long term interest rates it would be very beneficial.

HMJr: Yes

S: Very beneficial, I mean, on the corporate bond market, -

HMJr: I know.

S: - which means new financing. And you need it.

HMJr: Yes

S: Yes

HMJr: Well, I - I don't think any of us are very far apart, except by distance.

T: We've got a vote from Harry White who says he disagrees with what Larry Selzter said. (Laughs)

HMJr: Well, put him on.

S: Yes (Laughs)

Harry White: That's all, Mr. Secretary, I just wanted to indicate that I think I'm the only one that disagrees, so it's probably not important.

HMJr: Well, what's your angle?

W: I don't think that any action of introducing any more gold at this time is called for.

HMJr: I didn't get that.

W: I don't think that any more gold in the reserves is called for at this time. I don't think the situation is sufficiently critical.

HMJr: You don't?

W: No - but I'm in the minority of one here.

HMJr: Well, that's unusual.

W: (Laughs)

HMJr: Well -

W: Just a moment, Mr. Taylor wants to speak to you.

HMJr: I think that I've got - I can afford to wait.

W: Just one moment, sir.

W. C. Taylor: I'd like to disagree with Larry from another standpoint.

HMJr: Yes

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T: That is, that I don't think the introduction of gold would help the corporate bond market. It just stays further away.

H.M.Jr: Well, would it help my McIntosh apples?

T: It might help some.

H.M.Jr: I see.

T: Yes.

H.M.Jr: Well, that's very important.

T: Yes.

H.M.Jr: And I just want to tell Roswell McGill he won't get any invitations to go on a trip in Mr. Perry's private car.

T: You state it plainly.

H.M.Jr: Yes, but tell him to look up the clippings last year and see who did go on that car with him.

T: (Laughing)

H.M.Jr: I'm serious.

T: All right.

H.M.Jr: Hello.

T: All right.

H.M.Jr: Let him look up and see who did go on that car with him. About -- well, within the last twelve months it was all in the papers. Let the librarian go through it and get the clipping out for him. I think it will be a little enlightening to him.

T: O.K.

H.M.Jr: I know who some of the people were, but I can't remember all, but I remember one gentleman particularly.

T: He's going to have it looked up.

H.M.Jr: All right. Well, some want a little gold, some don't.

-15-

I've been terribly disappointed. No one suggested that I use silver. Hello?

T: I see. Archie definitely told Dan about a month ago to do that, but Dan wouldn't do it. The ninety-five million -

H.M.Jr: Archie said to use more silver certificates.

T: Yes.

H.M.Jr: I know. Well, I guess silver just has no past any more.

T: Yes.

H.M.Jr: All right.

T: Talk to you in the morning?

H.M.Jr: Yes. And I'm going to sleep all right, - I'm all right.

T: Right. O.K.

H.M.Jr: Good night.

T: Good night.

March 17, 1937

(Dictated over the telephone from Sea Island to Mrs. Klotz at her home, at 7:30 p.m.)

Magill called me at 8:15 and said that McIntyre had called him on this Railroad Retirement statement, saying that he had to change it or withdraw it; that it would seem as though they were having a fight in the official family and that Magill should tell me (HM, Jr) about it. I told Magill that I would take care of it right away.

I asked Magill to dictate the statement to me over the telephone.

I then called Warm Springs and asked for the President. McIntyre got on the wire and said, "You are not going to bother the President with that, are you?" so I said, "That is only incidental." McIntyre then said, "All right, I will let you talk to the President."

I told the President everything that happened today on taxes, bonds and everything; that we told the Federal Reserve we only had \$14,000,000 left; that after that they would have to go it alone. Then I said to the President, "About this Railroad Retirement thing -- he started to get angry with me and I said, 'Wait a minute, before you say anything let me read the statement to you,' which I did, and then he said, 'Oh! That is entirely different than what McIntyre told me. That is all right.'" and I replied, "That is what the people on the Hill said, 'Oh!'" said the President, "you checked with them?" and I said, "Yes," and the President said, "Oh, that is all right. That is very mild. That is all right."

The President then said, "Call Eccles and tell him what you are doing," and I told the President that I didn't want to call Eccles, so he said, "Well, call Hanson and tell him what you are doing." My reply was, "That is a swell idea."

I told the President that I would call him

-2-

tomorrow when I knew more about the tax return.

I then called Magill and Magill said that he would sleep for the first time in two nights he was so relieved.

I then called Ransom and told him about our plan. I said, "I want you to let me know tomorrow whether you are going to support the bond market because if you do not, we will be spending gold."

March 17, 1937

MEMORANDUM FOR THE FILES:Carriers Taxing Act

I explained to Congressman Doughton that our calculations indicated that the proposed Carriers Taxing Act would fall short by several hundreds of millions of dollars of meeting requirements of the proposed Railroad Retirement Act. Mr. Doughton said that he felt very strongly that the proposed taxes should be sufficient to carry the retirement allowances and that before we modify the existing tax law we should be very sure that the new rates would be sufficient to care for the allowances. He said he thought the majority of the membership of the Committee would feel the same way and that as soon as the Bill came before them he would give me a chance to talk to a group of the Committee members.

I asked Mr. Doughton whether he thought it would be advisable for the Treasury to give out a statement indicating that their preliminary calculations show that the tax would be inadequate to pay for the allowances. He said he thought we should do so by all means, since it would strengthen his hand and our hand in dealing with the Bills later on.

Senator Harrison is out of the city and consequently I could not see him. I gave Mr. L. H. Parker substantially the same information which I gave Mr. Doughton.

I also called Mr. Altmeyer. Altmeyer felt that it would be highly desirable for us to give out a statement to the effect that our computations show that the proposed rates of tax were not sufficient to meet the needs of the retirement legislation. He said further that Mr. Latimer had called him this morning to say that his understanding with the railroads and brotherhoods was that no details of the agreement between the carriers and the brotherhoods would be given publicity at this time. Furthermore, that the President had asked that the Bills be not introduced until after his return. Latimer further said that there were a number of detailed objections to the Bills, and that it would not be possible to get them in shape for introduction until after the President's return.

Altmeyer further reported that Latimer stated that the brotherhoods were entirely agreeable to a continuation of the present 7 percent rate. Altmeyer then asked Latimer why he did not insist upon the retention of the present tax law. Latimer said that a couple of railroads did not agree to it and that these were Morgan roads. Altmeyer accordingly suggested that it would be well for the President to talk to George Harrison

Memorandum for the files - 3/17/37 - 2
Carriers Taxing Act- continued

of the brotherhoods before the Bills are introduced to try to get the brotherhoods lined up in favor of the retention of the present tax. He thought it might also be desirable for the President to talk to Mr. Stetinius, since he had been helpful in other negotiations between the Morgan interests and labor. Altmeyer finally said that he thought that Latimer had bungled the negotiations badly; that Latimer should never have consented to the conclusion of the negotiations until the Treasury had had an opportunity to check the calculations. Furthermore, Altmeyer did not understand why Latimer ever agreed to a repeal of the present Tax Act and to the Government's taking over the liability under the present pension plans.

Bill White 4/1

MEMORANDUM FOR THE FILES

MARCH 17, 1937

CARRIERS TAXING ACT

Mr. Latimer called up today at 4:00 P.M. and said that he had heard from the newspaper men that we disapproved of the agreement between the Carriers and the railroad men for retirement allowances. I told him that we did not disapprove of the agreement but approved of it, but that as he was aware, our calculations indicated that the returns were too low to pay the agreed allowances. He said that he thought we ought to give further study to the matter before giving out a statement, and that he feared the publication of a statement might stop the agreement and compel new negotiations.

I asked him whether the details of the agreement had ever been given to the President and he said they had. He asked, however, that we submit our calculations to the President.

CARRIERS TAXING ACT

I gave the Secretary the substance of Mr. Latimer's conversation over the telephone about 4:20 P.M. He asked me whether I had talked to Senator Harrison, Congressman Doughton and Mr. Altmeyer and I said I had spoken with all of them except Senator Harrison, who was out of town. I told him that Mr. Doughton strongly approved of our making the statement. He asked me to make sure that Senator Harrison's office had a record of my call and also to find out from Latimer whether he had talked to the President recently.

I called Senator Harrison's office and found that the Senator would be back some time tomorrow. I told his secretary that I had called about noon, since I had wanted to see the Senator - and that I would call again tomorrow.

When the Secretary called at 5:00 P.M., I reported to him my conversation with Latimer. The Secretary said he was glad we had given out the statement, although I couldn't expect to be invited to go on his private car by Mr. Pelley.

Note: Miss Diamond checking recent trip - Pelley car.

4:30 P.M. Telephone Conversation between
Mr. McGill and Mr. Latimer.

Carriers Taxing Act.

Mr. McGill: "I want to give you the text of what the Treasury gave out"

Mr. Latimer: "I didn't know you had anything you had given out"

Mr. McGill: "This is what we have got": (reading to Mr. Latimer the text of the 3.17/37 press release - copy attached)

Mr. Latimer: "May I have someone take that down? But I suppose it is already out and that won't be necessary"

Mr. McGill: "That is just about as mild as we can make it, without being put in the position of approving it"

Mr. McGill: "When did you talk with the President last, with respect to carrying out the agreement?"

Mr. Latimer: "Last Thursday -- the last day he was in town"

Mr. McGill: "You haven't talked with him about it since?"

Mr. Latimer: "No"

Mr. McGill: "How did the Press give the agreement out this morning?"

Mr. Latimer: "I don't know. They didn't have it ready -- I haven't seen the exact text of what they gave out."

....."I have been in bed ever since I spoke to him. I passed the thing on verbally to him"

Mr. McGill: "Well, that's as mild as we could make it. I don't see where it is going to particularly bother you except it ought to cause the parties to get together and do a little negotiating on a basis which will pay the freight"

Mr. Latimer: "All right -- good bye"

Mr. McGill: "Good bye"

TREASURY DEPARTMENT

Washington

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FOR RELEASE, MORNING NEWSPAPERS,
Thursday, March 18, 1937.
3-17-37.

Press Service
No. 9-86

Acting Secretary of the Treasury Roswell Magill today made the following comment on the report of an agreement between representatives of the railroads and of the railroad employees upon a plan for retirement allowances to be supported by a separate taxing act:

"Officials of the Treasury are glad to see the conclusion of an agreement which will operate to end the injunction proceedings affecting an important part of the Social Security program.

"Congress may find it necessary to modify somewhat the rates set up in the proposed new Carriers' Taxing Act. Our preliminary calculations indicate that the proceeds from the proposed tax would fall considerably short of meeting the required payments under the proposed Retirement Act."

ocOoo

MEMORANDUM FOR THE FILES

March 17, 1937

CARRIERS TAXING ACT

Colonel McIntyre called about 5:30 P.M., after I finished talking to the Secretary, and said that the President would prefer that no statement should be given out, or, if a statement were given out, that it be made clear that the calculations of the insufficiencies of the tax to meet the allowances were preliminary actuarial computations; that our calculations had not gone far enough to show that the tax was sufficient to pay for the retiring allowances. I told him we had already given out the statement and read it to him. I also told him that I had discussed the matter with the Secretary this morning and he felt we should give out a statement in order that there might be no implication that the Treasury approved this agreement, since in fact the Treasury's preliminary calculations indicated that the tax bill was inadequate. Colonel McIntyre said that he did not see any need for a statement since the agreement had not yet taken any official form. He then added that as an additional objection, that giving out a statement indicated a conflict between two government departments, which was undesirable. I called his attention to the fact that our statement was in almost exactly the wording which the President had suggested; and that since the agreement was given out as a private arrangement between the railroads and their employees I did not see any indication of a conflict between government departments. Colonel McIntyre said, however, that he felt that we either ought to withdraw the statement or ask the newspapers to revise it to refer to our calculations as preliminary actuarial computations. He asked that I call the Secretary to give him this information, and I said that I would do so. I immediately put in a call for the Secretary, who was apparently out of the hotel.

Note: The Secretary called back about 6:10 P.M. and talked with Mr. McGill, who related to him the above conversation. The Secretary then called the President and Mrs. Klotz has a complete record of what the Secretary said to the President, and the President said to the Secretary. (Also see copy of press release with Mr. McGill's notations thereon - 3/17)

MEMORANDUM FOR THE FILES

March 18, 1937

CARRIERS TAXING ACT

The Secretary suggested in his one o'clock telephone call that I inform Mr. Altmeyer of the fact that the President had approved the form of our press release yesterday and also that we had discussed it with congressional leaders. Accordingly, I gave this information to Mr. Altmeyer over the telephone about one-fifteen o'clock. I told him, further, that our men were working on the various actuarial computations and that we would be in touch with him a little later on the subject. I asked him, also, if he would like to attend the proposed conference next week, and he said he would like very much to go. He said, also, that he was considerably bothered by various aspects of the retirement plan such as the coordination of its administration with the Social Security program and the provisions for reserve. I told him we would be in touch with him early next week.

I called Mr. Doughton about two-fifteen to inform him regarding my conference with Senator Harrison and the Senator's suggestion that we should have a conference next week. Mr. Doughton approved of the proposal but said he would be out of the city until Wednesday. I told him that unless he thought there was need for haste, that I believed we could have the conference thereafter. Mr. Doughton said that he thought it would be much better if we did not move too quickly. I suggested, also, that it might be well for me to discuss the situation somewhat with himself and any members of the Committee whom he might suggest prior to the general conference. He thought this an excellent idea and said he would call me up as soon as he got back from North Carolina.

I also gave Mr. Doughton the same information I had given Senator Harrison, of the income tax collections to date. I said the final reports might be somewhat less than the estimates, but that they were running fairly satisfactorily so far. Mr. Doughton said he did not mind the collections being less than the estimates since it would enable him to put a brake on expenditures.

March 18, 1937.
9:35 a.m.

Klotz: Hello

H.M.Jr: Yes.

K: Yes sir - Mr. Taylor?

H.M.Jr: Hello

K: Do you want to talk to Mr. Taylor?

H.M.Jr: Hello

H.M.Jr: Hello - Wayne.

T: Good morning.

H.M.Jr: Good morning. I want to tell you what I did last night. Ah - when I called the President I told him about the bond market - about the new orders to the Federal Reserve and he would only invest another 14 million and also about - and it looks as though the (fade out for the rest of this line and all of this line)

K: We can hardly hear you.

H.M.Jr: Hello.

T: O.K.

H.M.Jr: Can you hear me now?

T: Yea.

H.M.Jr: Hello

T: Yes.

H.M.Jr: It takes some time for those tubes to warm up you know.

T: It's all right.

H.M.Jr: Ah - ah - then the President said, "Well, why don't you discuss this with Marriner Eccles?" I said, "In the first place he's gone away and in the second place he's in such a condition that I'd rather not talk to him." And I said, "Ransom is here and he's got both feet on the ground and in charge."

H.M.Jr: So the President said, "Well I think it would be a nice thing to talk to Ransom and tell himself what you've done." I said, "I think that's an excellent suggestion." So I called up Ransom and I said, "I've talked with the President about our stopping buying when we get down to 25 million dollars." And I said, "The President wanted me to tell you that he approves of what we've done and that he hopes that the Federal Reserve will carry on." So - and buy - So Ransom misunderstood me and he said, "Well you mean the President wants us to go ahead and stop swapping and buy" and I said, "No, he simply hopes that you'll continue to maintain the bond market but whether you swap or extend your portfolio - that's your decision." So I said, "I want to make it perfectly clear." Ah - so he said, "Well as I understand it the Federal Reserve and the Treasury have 28 million dollars to invest jointly - when that's gone you expect us to carry on" and I said, "Yes" but I said, "One other thing," and I said, "this is very important. If you don't carry on and I just want to tell you at this time we'll begin to spend our gold and we will." So I said, "I want that understood." He said, "I understand perfectly."

H.M.Jr: And the reason I said that was I didn't want them in the future to say, "Well the Treasury put a gun to our head and said if we don't protect the bond market they won't," see? So he said, "I just got through talking to Marriner Eccles in Miami" and Ransom sounded all - sounded exhausted.

Note: (Hearty laughter by the group)

H.M.Jr: I suppose he should have been listening to Marriner.

Note: (More hearty laughter by the group)

H.M.Jr: He said, "I understand perfectly" and he said, "Do you want me to ----" and I said, "Well we definitely Thursday want an answer as to what you're going to do." So he said, "Shall I tell Wayne" and I said, "Yes, but inasmuch as the President asked me to speak to you I'd appreciate it if you'd call me just once yourself so in case I talk to the President again I can tell him I got it direct but - ah - hourly or day to - minute to minute - please work with Wayne Taylor." See?

T: Good.

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H.M.Jr: I wanted to make that absolutely clear and I also wanted to make the fact clear that I told them if they didn't.....

Note: (Loud sneeze by Wayne Taylor)

H.M.Jr:wouldn't protect the bond market after 28 million dollars was spent we would by using gold, see?

T: Yes.

H.M.Jr: I don't know whether you told him that but I was thinking it over.

T: Well I told him the equivalent of that.

H.M.Jr: Ah-ha.

T: I said that after that was gone we wanted to have another complete look which naturally would include the discussion of gold.

H.M.Jr: Ah-ha. Well I put it right plain.....

T: Yes.

H.M.Jr:and he said he'd talk it over after calling his Executive Committee together and then let me know but I just wanted to explain why I did something which I don't usually do when I'm away and that I went directly to Ransom because.....

T: No I think that that's - ah - . we have no suggestions at all on that because....

H.M.Jr: Well I thought I might as well agree with one thing that the President told me last night and that was the easiest one.

T: (Laughs) Didn't have any luck on the rest, eh?

H.M.Jr: On the rest?

T: Yes.

H.M.Jr: Well you heard what happened with Magill. I want to tell Magill again because I want to make a record of it, you see? But before I talk with Magill, anything else?

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T: Ah - nothing of any immediate importance, except that this might interest you that the Cuban delegate is here and we're going to start talking to him to-day.

H.M.Jr: Ah-ha, I see. You better teach him the song "Silver Threads Among the Gold."

T: I'm afraid he knows it only too well.

Note: Laughter by H.M.Jr. and the group.

H.M.Jr: All right. Ah - exchange all right?

T: Yep.

H.M.Jr: All right.

T: Want to talk to Ros?

H.M.Jr: If you don't mind.

Magill: Good morning, sir.

H.M.Jr: Hello Magill.

M: How are you?

H.M.Jr: I'm all right.

M: (Laughs)

H.M.Jr: Ah - now just let me go over this once more because we make a record of it, you see?

M: Yes

H.M.Jr: When you called me last night and told me that McIntyre called you and said that you should inform me they wanted us to correct this statement....

M: Yep.

H.M.Jr: I then called up Warm Springs and McIntyre got on the wire and he said, "You're not going to bother the old man about that, are you?" That's all he said not mentioning what and I said, "Oh that's just incidental."

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H.M.Jr: So he put me on and at the end of my whole conversation - I brought it up last - I talked to the President about it and the President was quite excited; he said, "This is a family matter and he had no right to give out that statement" and I said, "Well it may be a family matter but Letimer hasn't been playing ball with us." And so he was quite angry about it and I kept saying please wait until he had read the statement and I insisted on reading the statement, unfortunately a habit and I did read it to him and when he got through he said, "Oh why that's entirely different. Why he said McIntyre didn't tell me that - why that's all right" and during the course of the conversation I told him we'd catch it on the hill and that seemed to please him very much and I got the feeling that worried as much about - how the hill feels about this thing - and I think that's a good thing to keep in mind, see?

M: Yes

H.M.Jr: He may - seems to be worried about our not offending anybody on the hill.

M: Yes, well now

H.M.Jr: That's the story and now we've got a record of it.

M: Well now when....

H.M.Jr: Go ahead I've had to tone it down. Mrs. Klotz got on Bobby's third version of it last night.

M: (Laughter)

H.M.Jr: I toned it down about 50%.

M: Ah - in line with that you - ah - want me to call Senator Harrison this morning.

H.M.Jr: Yes, very much.

M: Ah - I don't just know when he's going to get into town but....

H.M.Jr: We.....

M:and I'll - I'll tell him in substance that we - we were very anxious to get in touch with him yesterday and, of course, he wasn't here.

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H.M.Jr: I'd try to see him. I wouldn't do it over the phone.

M: Yes, that's what I'll do.

H.M.Jr: Yes, and they ran a little statement here in the Jacksonville paper and it read all right.

M: Well I think it reads - I think it reads all right but the treatment by the New York papers has been

H.M.Jr:

M: Yes, the New York Times sticks it over obscurely on the financial page - doesn't do anything about it.

H.M.Jr: Yes.

M: Wall Street Journal has it on the front page....

H.M.Jr: Yes.

M:and the Herald Tribune has got it in the middle somewhere in quite a story.

H.M.Jr: Ah-ha. I'm awfully glad you did it and I hope you slept well after they cleared it.

M: I slept moderately well (Laughs).

H.M.Jr: All right.

M: Well I'll - I'll get shold of the Senator this morning.

H.M.Jr: I think that's very important.

M: Anything else on that line?

H.M.Jr: Not a thing.

M: All right, who do you want next?

H.M.Jr: Anybody that wants me. What's Oliphant doing?

M: He's sitting over there on that - daydreaming I think.

H.M.Jr: I - I got a bone to pick with Oliphant.

- M: I'll put him on.
- Oliphant: Is it a wish-bone?
- H.M.Jr: Herman, what did you mean by telling Paul Mallon that I'd read that statement before he gave it out?
- O: Well I - Paul met me and I was trying to keep everybody in the family happy.
- H.M.Jr: I see.
- Note: (Laughter by the group)
- O: Yes
- H.M.Jr: I hope you told them I cleared it with the General Counsel first.
- Note: (MORE laughter by the group)
- O: I'm sorry Henry - he thought that was playing ball.
- H.M.Jr: Thanks for getting Burke out of hock.
- O: Yes, he was on the witness stand - we had a little trouble but it worked out all right.
- H.M.Jr: Well he got in at 11 o'clock last night.
- O: He got there all right, did he?
- H.M.Jr: Yes.
- O: Fine. I'm still waiting to hear from Keenan - ah - nothing new on that.
- H.M.Jr: Why don't you send around - maybe he could get it for us.
- Note: (Laughter) - Group.
- O: That's an idea.
- H.M.Jr: What?
- O: (Mr. Oliphant's reply could not be made out. It sounds like squealing coming from a carload of pigs arriving at the stockyards at Chicago)

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H.M.Jr: I never lose my sense of humor. I mean they may get me down but.....

O: But they don't get you out.

H.M.Jr: But I thought the next vacation I'd spend on Tully's private car.

Note: (Laughter by group)

H.M.Jr: Then at least I'd know what was going on.

O: (Laughs) Oh you're feeling better.

H.M.Jr: All right.

O: Goodbye - anybody else you want to talk to?

H.M.Jr: No - just before I go out at 10:30 I'd check the bond market. By the way I'd like to ask Wayne if he'd put on the wire for me how many Baby Bonds we sold in January; how many we sold in February and how many we sold the first 15 days of this month because the President asked me and I made a wild guess. I hope I came pretty near it.

O: Ah - he's nodding to tell you he'll do it.

H.M.Jr: What?

O: He's nodding to tell you he'll do it.

H.M.Jr: Yes - I made a - Wayne - ask him about what we're selling to-day.

O: About two million a day he said.

H.M.Jr: Exactly what I told the President.

O: That's good.

K: Wonderful.

H.M.Jr: What?

K: Too wonderful.

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H.M.Jr: That's what I told the President. I don't know why he had it in his mind.

O: Yes

H.M.Jr: If the President caught me because I didn't remember to congratulate him on his wedding day yesterday I'm going to blame Magill.

Note: (Laughter by the group)

O: Are you going out for a ride?

H.M.Jr: Now?

O: Ah-ha.

H.M.Jr: Well I - I gotta get dressed first.

O: Tell me - is the sun shining?

H.M.Jr: No.

O: It isn't here either.

H.M.Jr: It's still cold here.

O: Yes - same thing here.

H.M.Jr: I'll call up about 10:30 - I'll just talk to - call up at that time and get a flash on the bond market.

O: All right. Well have a nice breakfast.

H.M.Jr: Well - ah - never - that's that.

O: All right.

H.M.Jr: All right, good-bye everybody.

O: Goodbye.

K: Goodbye.

H.M.Jr: Goodbye.

K: Goodbye.

Thursday, March 18, 1937

Bids were placed in the market at levels generally $1/32$ nd under the previous day's close with the idea to try and continue to maintain an orderly market by purchases on a down scale. The market opened generally higher and except for a brief lapse during the noon hour quotations rose steadily and closing prices for Treasury bonds were up for the day from 2 to $18/32$ nds. Treasury notes were strong all day, the long maturities closing 6 to $14/32$ nds higher.

Total purchases amounted to \$750,000, these being made shortly after the opening. The Treasury share for the account of the Postal Savings System was \$375,000.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, March 18, 1937.
3-17-37.

Press Service
No. 9-86

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"Officials of the Treasury are glad to see the conclusion of an agreement which will operate to end the injunction proceedings affecting an important part of the Social Security program.

"Congress may find it necessary to modify somewhat the rates set up in the proposed new Carriers' Taxing Act. Our preliminary calculations indicate that the proceeds from the proposed tax would fall considerably short of meeting the required payments under the proposed Retirement Act."

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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 18, 1937, noon.

NO.: 376 FROM COCHRAN.

Bank of France is open this morning and other banks are conducting business although some of them have had their front doors closed most of the forenoon as a result of the general strike of Paris associated labor unions which became effective early this morning and is not expected to end until after today's lunch hour. I had a telephone conversation with Cariguel at the Bank of France, who told me that exchange trading was fairly quiet this morning. The outbreak of the political disturbances coming at such an unfortunate time distressed him very much. Yesterday, he said, there had occurred complete cessation of the movement of funds to France. However, no move had been made by the French stabilization fund to support the currency.

Cariguel said that while the movement last October in favor of the franc had been principally a covering of speculative positions, the present reflux of capital had been a more healthy one and if political and social conditions were at all favorable, had promised to continue. Naturally, Cariguel hopes that the political situation will be cleared up quickly in such a way that capital will be encouraged.

WILSON.

EA:LWW

March 18, 1937
10:25 a.m.

Treas.
Operator:

Mrs. Klotz: Hello.

Gov. Ransom: Yes mam.

Treas.
Operator: Just a second.

K: Getting Governor Ransom?

Treas.
Operator: Yes.

K: All right.

Treas.
Operator: Go ahead.

Ransom: Hello!

HMJr. Hello Ransom. Good Morning! How are you?

R: I'm better, thank you.

HMJr: That's good. I've had a conference with

R: I don't hear awfully well

HMJr: with the Executive Committee of the Open
Market Committee.

R: Talk a little louder?

HMJr: I say, we've had a conference this morning of the
members of the Executive Committee of the Open
Market Committee.

R: Yes.

HMJr: And under the authority which the Open Market
Committee gave us, and about which Mr. Ecoles
advised you, we are prepared to step in whenever
you gentlemen decide that you don't want to go
ahead on joint accounts and continue the efforts
along the same lines which have been made to pre-
vent the market from becoming disorderly.

R: Yes.

R: Now we have authority, something over two hundred million, I haven't been able to get that exact figure, which we can use by the shift method, and that we would prefer to do for the time being to see how the situation develops, watching it . . .

H.M.Jr: I see.

R: . . . from day to day. Now when and if anything develops which causes us to have a change of view, where we feel that there would be any change of policy at all, why, of course, we would give you ample advice in advance of that, and have a further conference on the subject with you.

H.M.Jr: Well, that's fair enough.

R: Yes.

H.M.Jr: Well, now I want just to make this plain. We're ready after this fourteen million . . .

R: Yes.

H.M.Jr: . . . is spent . . .

R: Yes.

H.M.Jr: . . . to continue to go fifty-fifty with you, but we'd have to do it through spending gold.

R: Yes, you'd - you, if you went beyond your fourteen million, you'd have to do it by spending gold.

H.M.Jr: That's the point.

R: So the thought is, that at the present time, that we will go ahead and use our authority as - just as it has been done over the last few days, watching the situation as it develops so you won't have to adopt that method until we've had a further conference on the subject.

H.M.Jr: Well, - - - we understand each other entirely.

R: All right, Sir.

H.M.Jr: And if you don't mind, I mean that on the hour to hour basis, if you'd keep in touch with Wayne Taylor.

R: I'll keep in touch with Wayne on the hour to hour basis.

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H.M.Jr: But if there's any change in policy, I'd appreciate your letting me know.

R: Why surely, Mr. Secretary, we'll do that. Now, have you got the opening on the market this morning?

H.M.Jr: Not yet.

R: Well, it's a little better this morning.

H.M.Jr: Good.

R: And talking to New York I find that the dealers feel that - considerably more optimistic today than they felt yesterday, and that's due to the fact that on an analysis of yesterday's operations they believe that both bankers and insurance companies were in the market, feeling around for the bottom yesterday.

H.M.Jr: Good.

R: So I'll keep on - in touch with Wayne on an hour to hour basis, and any change whatsoever, in policy or thought about procedure, we'll communicate directly with you.

H.M.Jr: Thank you very much.

R: All right.

H.M.Jr: Thank you.

H.M.Jr: Hello.

Treas.
Operator: Operator.

K: Did you cut him off?

H.M.Jr: . . . give me back to my old number there, Mrs. Klotz.

T.O: No, he's still here.

H.M.Jr: Hello.

K: All right, Mr. Morgenthau.

H.M.Jr: Is, is Mr. Taylor there?

K: He's right here - do you want to talk to him?

H.M.Jr: Yes.

Taylor: Hello.

H.M.Jr: Wayne?

T: Yes.

HMJr: That was all right.

T: Yes, that's just right.

HMJr: What?

T: That's just right.

HMJr: That's all right.

T: Yes.

HMJr: I take it the market is better?

T: Yes - a shade. Strength in the notes and short bonds; other bonds just about unchanged.

HMJr: Yes.

T: . . . Two . . .

HMJr: . . . Now what I'm going to do is, I'm going out . . .

T: Two and one-half just sold at twenty-six.

HMJr: What?

T: Two and a half just sold at twenty-six.

HMJr: Closed at twenty-four, did they?

T: Yes. So that that's

HMJr: When they call up at about one

T: At one?

HMJr: Will you have Bartelt around . . .

T: Yes.

HMJr: . . . and Haas?

T: Bartelt and Haas at one.

HMJr: And if Mrs. Klotz will tell Mr. Magill - I'd like him to wait around too.

K: - He went up on the Hill.

HMJr: Well, he'll be back by one.

K: Yes.

HMJr: And - when I call up I'll let them know that they can do it in my office and they have the advantage of the loud speaker machine.

K: Yes. O.K.

HMJr: I mean I can talk to them - I mean I can't tell exactly, but it'll be between a quarter of one and one.

K: Yes.

HMJr: Depending upon how many of my balls go out of bound.

K: Laughter.

HMJr: Laughter.

K: Yes. Laughter

HMJr: And

T:

HMJr: Well

T: Laughter.

HMJr: . . . my drives are wonderful but my approaches just don't seem to get there.

K; Yes.

T: Maybe that club head . .

HMJr: What?

T: Remember, remember the receiver for that club head

HMJr: Yes. I'll call back again around then.

K: All right.

T: Right.

K: I hope we don't have any. . .

HMJr: Nothing else?

K: No more Ransoms, no.

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HMJr: No more Ransoms.

K: No.

HMJr: Well, I - I don't know how Taylor feels, but at this particular time I - I'd a little bit rather do business with Ransom than I would with Eccles.

T: It doesn't take as long.

HMJr: What?

T: It doesn't take as long.

HMJr: No. . .

K: I -I'm going to put a little . . .

HMJr: makes a clean cut statement and I know what he's talking about.

T: Yes.

K: I'm going to put a little something in his soup the next time he comes here though.

HMJr: In his soup?

K: Yes.

HMJr: Well, I guess . . .

K: It won't, it won't take . . .

HMJr: never had as much responsibility as this before. . .

K: Yes.

HMJr: And it -- unfortunately I had to take it out on you.

K: Well, I - I can take care of myself you know.

HMJr: What?

K: I think I can take care of myself.

HMJr: Well we've, we've taught bigger ones than him.

K: You bet. Laughter.

HMJr: Right.

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K: All right.
HMJr: All right.
K: Good-bye.
HMJr: Good-bye.
K: Have a good game.
HMJr: Thank you.

March 18, 1937
12:55 p.m.

Klotz: Hello.

HMJr: Yes.

K: Mr. Taylor is sitting opposite me.

HMJr: Smiling?

K: Always smiles.

HMJr: Always smiling.

K: Yes.

HMJr: Now - can you - may I talk to him?

T: Yes.

HMJr: Hello Wayne.

T: Yes, Henry.

HMJr: What have you to report, please?

T: I haven't done much business.

HMJr: How much?

T: Seven fifty.

HMJr: How much?

T: Seven fifty.

HMJr: Is that three naughts? Seven hundred and fifty thousand?

T: Seven - seven hundred and fifty thousand.

HMJr: That's good. And what are the two and a halves?

T: Twenty-four.

HMJr: That's all right.

T: The - they went off a little bit, but have taken care of themselves.

HMJr: Yes. Maybe they'll be a little more careful now that they know they're going to have to spend their own money.

T: Laughter. Well, it's, - the market will take care of itself, all the better.

HMJr: How are commodities - stock?

T: Commodities are up.

HMJr: And stocks?

T: Stocks are up.

HMJr: Any gossip on the Hill?

T: (To Klotz) Any gossip on the Hill?

K: Dr. Magill wants to talk to you about it.

HMJr: I want to talk to him.

K: Yes.

HMJr: I mean, on the ticker. I mean . . .

T: No . . .

K: . . . Nothing . . .

HMJr: I mean anything that . . .

T: No.

HMJr: against taxes or anything?

T: Not yet.

HMJr: Yes. Now before I talk to Magill is Eddie Bartelt there?

T: Right here.

HMJr: May I talk to him please?

Bartelt: Hello Mr. Secretary.

HMJr: Hello. Now, what do you know?

B: The result of the . . . Hello.

HMJr: Hello.

B: The results of the reports from the Collectors received as of the close of business last night

HMJr: What night - wait a minute. What's the date last night?

B: Seventeenth.

HMJr: Wait a minute. Close of business - just a minute - seventeenth, yes.

B: They had five hundred and fifty-five million deposited in the banks.

HMJr: Five hundred and fifty million in the banks.

B: Five fifty-five million in the banks.

HMJr: Five fifty-five.

B: Right.

HMJr: In the banks.

B: Yes, Sir.

HMJr: Yes.

B: They have about fifty-five million dollars in undeposited collections.

HMJr: Fifty-five unde - posited.

B: Yes. That makes a total of six hundred and eleven million.

HMJr: Yes.

B: We estimated that we may get about twenty million dollars for the balance of the month.

HMJr: How much?

B: Twenty million.

HMJr: That's all the rest of the month?

B: Between March 17th and the 31st.

HMJr: Well that's impossible, isn't it? A little - anyway I'll take your figures.

B: Yes, that makes a total of six hundred and thirty million.

HMJr: Yes. Six thirty-one.

B: Yes, six thirty-one. That compares with four hundred eleven million last year.

HMJr: How much last year?

B: Four hundred and eleven million.

HMJr: Four eleven in nineteen . . .

B: That's an increase of about two hundred and twenty million.

HMJr: Yes. Well, what - what did they expect?

B: Why, I think the Bureau of Internal Revenue expected about some seven hundred and seventy-five million.

HMJr: Seven seventy-five.

B: Yes.

HMJr: Well, ah, what has Haas got to say, anything?

B: Well, I think he does. I believe he's optimistic and - has quite a story.

HMJr: Is he there?

B: Yes. He's right here.

HMJr: Yes.

B: Do you want to talk to him?

HMJr: Yes.

Haas: Hello.

HMJr: Hello George.

H: Hello, Mr. Secretary.

HMJr: What do you

H: I'm not so optimistic as Eddie thinks.

HMJr: I see.

H: Ah, in fact, I don't feel very good.

HMJr: You don't

H: Ah

HMJr: feel what?

H: I don't feel very good. . . .

HMJr: You mean physically or mentally?

H: No, no, on this - the way the estimates are - these figures, they're apparently indicating the way some of these estimates are working out.

HMJr: Yes.

H: But the situation - as I see it - the figures which have been coming in - there's nothing previous years which is on a comparable basis that we can compare them with . . .

HMJr: Yes.

H: . . . and, I don't concede the election until they count all the ballots anyway.

HMJr: Yes.

H: So I think it would be - I don't - at the close of the week, after everything's cleaned up on Saturday, . . .

HMJr: Yes.

H: . . . I think we could figure pretty definitely about where we're at.

HMJr: Yes.

H: They're several situations that might have occurred. For example, we figured in the - in making this estimate there's two things to figure; one is the tax liability and the other is when it will be paid.

HMJr: Yes.

H: And we figured in March that about fourteen per cent of the collections would be full payments. It may be that because of that increase in taxes many people only paid a quarter that previously paid full amount or half amount. And if we go back to 1930, ah, and use that basis on the - as a base for assuming what proportion would be paid, it cut the estimate down - the, the amount which has come into March cuts down over a hundred million. Then they're other things; corporations, ah, may have filed returns and expecting to have assessments put on them later on -- there's a good many things - I've talked to the boys about - that might have happened. But we won't really know what happened until sometime later. But I think by the beginning of next week I can be able to tell you rather definitely about what you can figure on.

HMJr: Well, is six thirty-one for March - do you compare

that with an estimate of eight forty?

H: No, the estimate for March is eight thirty.

HMJr: Eight thirty.

H: And to date they're - they're six - they're counting on six eleven.

FMJr: Wait a minute. Estimates for March was - how much?

H: Eight thirty.

HMJr: Eight thirty. Well, now the esti - and he gave me six eleven, plus twenty, is six hundred and thirty-one.

H: Six hundred and thirty-one. Yes, that, that's Eddie's estimate. I don't know how he's making that up, that's his estimate.

HMJr: Well, anyway, so it'll run - we'll run about two hundred million short.

H: Ah, ah, on that basis, yes. I don't think that that's a - that that - that looks larger to me than on these figures which have come in.

FMJr: Pardon me?

H: That looks large to me on these figures that are coming in - I mean I think that it'll . . .

HMJr: . . . looks too large?

H: No, I think that, that differential is too large. I think that'll be made up. I don't think the differential will be two hundred and twenty million.

HMJr: Well, now let me - whoever can answer this question - get Taylor or Bartelt . . .

H: Yes.

HMJr: How are they going to handle -- bank balances over the week-end?

H: I see. O.K.

HMJr: Who can answer that?

B: Mr. Secretary, I think we'll have enough money over the week-end, but we'll have to make a call of about a hundred million dollars for Monday.

HMJr: A hundred

B: For payment Monday. We'll have to make a call today for payment Monday of about a hundred million.

HMJr: Well, now if you call a hundred million - I, I want you to figure safe; I don't want to be uneasy now.

B: Yes.

HMJr: See?

B: Yes.

HMJr: Now's a hundred - I mean - I - is a hundred million plenty?

B: I think that'll be plenty.

HMJr: Well, don't you have to do it today?

B: We have to make a call today, yes Sir. But I think from now on these - receipts will not be disappointing. That is to say, we can figure them a little better.

HMJr: Well, now when I - I want you to be around again. I'll call up around four o'clock.

B: Yes.

HMJr: And I wish you'd readjust our estimates of financing, and figure the way we are now, on this basis, if we're two hundred million off - can we go to two fifteen only asking for three hundred million for bills; won't we have to ask for at least another hundred million?

B: Yes.

HMJr: See?

B: Would you want to do it this early or would you want to wait until Mr. Haas can give you some better figures on the taxes?

HMJr: You better do it and have it ready for - well, have it ready early next week.

B: Early next week.

HMJr: Well, I mean we have to - yes.

B: Yes.

HMJr: Have something for me say along Monday or Tuesday.

B: Yes. Well, we will have some more figures, I think, Monday noon on this tax situation.

HMJr: Monday - nothing more?

B: Well, we'll have information from day to day, but we'll get another tabulation from the Collectors.

HMJr: When?

B: Monday noon.

HMJr: Why not before that?

B: Well, it's just been the practice to . . .

HMJr: What?

B: That has been the practice, as I understand it, to get two reports.

HMJr: How did you get this information that you're giving me today?

B: I beg - I beg pardon?

HMJr: How did you get this information that you're giving me today?

B: I - I got this today - it was a special report; I asked for it especially because I felt that these things were not coming in as fast as we . . .

HMJr:ask for another special

B: anticipated.

HMJr: . . . one. I want another special one tomorrow noon.

B: You want another special one?

HMJr: I don't care what it costs.

B: All right, Sir. I'll give those instructions.

HMJr: I mean, I want another one at the same time tomorrow.

B: All right, all right, we'll take care of it.
HMJr: I want, I want another one Saturday.
B: All right.
HMJr: See?
B: Yes.
HMJr: And then another one Monday.
B: All right, Sir.
HMJr: I mean, get out telegrams immediately.
B: Yes. We'll do that.
HMJr: I mean, this is terribly important.
B: Yes. Yes.
HMJr: All right.
B: All right.
HMJr: Let me have Magill please.
B: Mr. Magill.
Magill: Good morning.
HMJr: Good afternoon, Magill.
M: Good afternoon is right.
HMJr: I've only talked to you twice today.
M: I had a very pleasant talk with the Senator.
HMJr: Harrison?
M: Yes.
HMJr: Well.
M: He was very amiable, indeed. The, the thing that was on his mind, it appears, was Eccles' statement.
HMJr: Oh.
M: And he thought that was terrible. He had Parker in there too, and he went over this and he said this is

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terrible. We met with Henry last summer and we agreed there weren't going to be any new income taxes, and here there's a high official of the Administration saying there has to be some". And so he asked me about the collections and so forth, and I gave him the picture. I told him I called Helvering, and Helvering's dope is that the - while the collections will probably run slightly shy of the estimates, he thinks the situation is pretty good.

HMJr: Yes.

M: Because the information he gets is that the Collectors still have a large amount of unopened mail in their offices.

HMJr: Well, that's why I say I want a special report Friday at noon and one at Saturday

M: Yes, I think you're right.

HMJr: Two reports.

M: . . I don't think, in other words, I don't think you can put too much stress on this fifty-five million dollars which they estimate that they have but which hasn't been deposited.

HMJr: I see.

M: It may be a good deal more than that.

HMJr: Well, I hope so.

M: Now, - well, we'll talk to him and Harrison said he'd like very much to see the newspaper men; that's what he was going to do

HMJr: Yes.

M: and tell them that, that while the - that while the collections hadn't gone far enough so we could tell exactly where we were, and so forth, and that we're making these studies, that, still that if he saw no reason to change these views that he'd expressed before, that we didn't need any new income taxes or profits taxes this year,

HMJr: Yes.

M: That we would go ahead to extend the excise taxes; there would be a tax bill, but that he didn't anticipate any thorough going increases in, in rates.

HMJr: Yes.

- M: He was really - he was, as I say, he was quite upset about the Eccles statement, and he thought he ought to do something about it.
- HMJr: Who
- M: Himself, Senator Harrison.
- HMJr: Well, I was amused that - Mrs. Morgenthau drew my attention to the Tribune Tuesday where Eccles, friends of Eccles, say that he believes that President Roosevelt and HMJr. are
- M: (Laughs.)
- HMJr: . . . or Wednesday - yesterday rather.
- M: (Laughs.) Well, then he said now about this - this railroadin' bill, what about that? And I said, "Well I talked to you about it yesterday, and you'd suggested that I get in touch with him and I was very sorry to find he was out of town."
- HMJr: Yes.
- M: And I said, "What - the situation is simply that we've been having these conferences with Latimer and going over the figures, and so far as we can see this agreement that they arrived at doesn't provide quite enough money."
- HMJr: Yes.
- M: And then I went into that with him and told him that Doughton was very strongly of the opinion that, that a plan of this kind ought to carry itself, and that they ought to make it clear that it did.
- HMJr: Yes.
- M: Well, Harrison said, "That's all right". He said, "I think it's very important that we get together and get an agreement on the thing before the Bill is introduced."
- HMJr: Surely.
- M: And so he says, "I suggest that your fellows go ahead and make their studies"; he says, "There's no haste about it at all, and let's see if we can't have a conference next week and, and get the details all ironed out".

HMJr: Well, that's swell, because if he feels like that, then we're all right, and if anybody brings any pressure on the President, as long as we stand in the - on the Hill all right, the President'll stand with us.

M: Well, so far as I could see, we're in very good shape. He said, "There isn't anybody wants to introduce this Bill right away - is there?", and I said, "I don't know except what I see on the ticker, which is that Representative Crosser of Ohio is going to introduce the Bills tomorrow."

HMJr: Right.

M: So Harrison immediately called Crosser and, and said he thought that it was very undesirable to introduce the Bills until we all were in agreement on it.

HMJr: Well.

M: And Crosser agreed not to do it.

HMJr: Well.

M: - So that - what we're looking - I told Russell Reagh to go ahead and get our calculations all in good shape; - try, if possible, to get them in a shape where they can be understood by a Congressman. And - then we'll plan to have a meeting along about Wednesday or Thursday next week.

HMJr: I'm the Secretary of the Treasury.

M: (Laughs)

HMJr: Ross

M: Yes Sir.

HMJr: Just one suggestion. Having given these tax figures where we stand to Pat Harrison, do the same thing for Doughton, there's great jealousy between them.

M: I see.

HMJr: See?

M: Yes. I'll give him a ring right away.

HMJr: And, when Pat comes out with a statement Doughton can't say, "Well, why didn't Magill give the same thing to me?"

M: Yes.

HMJr: Get it?

M: Yes, I get it. Yes, I'll, I'll do that - that's a good point.

HMJr: If either Harrison or Doughton make a statement - on the ticker - - let **them** telegraph me right away.

M: All right.

HMJr: Just telegraph me what they say, but I'd get hold of Doughton and give him whatever information you gave Harrison - give Doughton.

M: - What I gave him - Harrison asked that I call up Mr. Helvering and find out what he had.

HMJr: Well, I'd give the same in

M: And so I did and gave him the information. Yes, I'll give him the same thing.

HMJr: That's fine. The two of them

M: Yes, I get the point.

HMJr: a little jealous.

M: Yes, I see the point.

HMJr: Well, I don't see that there's much that I can do now - I'll call up again at about four or a little after and get the bond situation, and - if -

M: Yes, as far as I can see we're in, we're in good shape on it.

HMJr: I'd like to make one more suggestion.

M: Yes.

HMJr: I'd get hold of Altmeyer and cultivate him a little bit.

M: Good.

HMJr: Altmeyer.

M: Yes, good.

HMJr: If you've got time.

M: Yes.

HMJr: So that, before you go tomorrow, so that - if we have him as a friend against the other fellow.

M: Well, we have so far.

HMJr: Well, have you seen him the last day or so?

M: I had a long talk with him yesterday.

HMJr: But did he know that the President - what happened and how the President sided with us?

M: No, but I'll tell him that.

HMJr: Yes, I, I

M: 'Cause that, you see that came in the evening; I haven't told him that.

HMJr: Pardon me?

M: That came in the evening, I haven't told him that.

HMJr: Well, I think it - it -- in the first place, I think he's a high class citizen.

M: Yes, I like him.

HMJr: And I, I think it's worth cultivating.

M: Yes. Well, I'll give him a ring -- I'll give him a ring right away and bring him up to date.

HMJr: Anybody else want to say anything?

M: (Pause) No I guess not. I guess everybody's happy.

HMJr: Wonderful.

M: (Laughs)

HMJr: Now - a - a if Mrs. Klotz Mrs. Morgenthau is here and would like to talk to her.

M: All right. She's going back to her room and I . she'll .

HMJr: All right.

M: . . . she'll take it in there.

HMJr: Thank you.

RR

GRAY

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Paris

Dated March 18, 1937

Received 1:15 p. m.

Secretary of State,
Washington.

379, March 18, 4 p. m. (SECTION ONE)

FROM COCHRAN. Although weak at the opening French franc both spot and forward has today shown a quick pickup and has regained much of the ground lost through Clichy riot. Although the turn over on the exchange market has been very small the Bank of France has been able to acquire a little sterling and dollars. Rentes also opened quite weak with declines of $1\frac{1}{2}$ to 2 francs but improved at close to show losses of from .60 to 1.15 francs compared with yesterday. New national defense bonds offered at as much as 55 franc discount on 1,000 franc certificate. Decline in share market results from general uneasiness.

Bank of France statement as of March 12 was fairly satisfactory showing no change in gold stock and no new advances to the state. The lowering of the bank rate which was strongly advocated a few days ago was impossible in the new circumstances.

French budgetary revenue for February was about 97 million francs more than estimates as concerns indirect

(End section one)

RR CSB

WILSON

RB

GRAY

Paris

Dated March 18, 1937

Rec'd 3:32 p. m.

Secretary of State
Washington.

379, March 18, 4 p. m. (SECTION TWO)

taxes and monopolies and about 339 million francs more than for February 1936. Revenue from customs increased by about 125 millions and from the business turnover tax by about 88 millions.

Compared with the corresponding month of 1936 foreign trade for February increased by about two billion francs (imports up 1,630,000 and exports 467,000,000.) Unfavorable trade balance 1,986 millions compared with 1,546 millions for the preceding month and 823 millions for February 1936. Compared with February 1936 tonnage of imports increased by 1,500,000 tons and tonnage of exports decreased by about 201,000 tons.

Press communique today states total subscriptions to National Defense issue will not be known until the end of the week and that a decree will probably be issued to settle the matter of any subscriptions received in excess of 8,000,000,000 francs.

Under

1937 MAR 18 4 32 PM
U.S. DEPARTMENT OF STATE
RECEIVED

RB

-2-#379, March 18, 4 p. m. from
Paris (SECTION TWO)

Under city notes, LONDON TIMES today remarks:

"The riots at Clichy have come at an unfortunate moment for they are calculated to slow down the repatriation of French capital. The repatriation movement started well last week but it has fallen off somewhat this week. Incidentally this shows that there is a vast difference in the effect produced upon the confidence of the investing and business classes between financial reforms undertaken by a Poincare administration and those of a Left Wing Government. The second tranche of the French loan met with a good response but more remains to be raised. If the good impression produced by the new financial policy of M. Blum's Government is to be maintained and the repatriation of capital continued and extended it will be necessary for it constantly to show that it is intent upon further reforms and will persist in its efforts until French finances have been placed upon a solid foundation".

WILSON

CSB

March 18, 1937,
4:18 P.M.

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Mrs. Klotz: Hello.

H.M.Jr: Yes. Am I on the air?

K: Yes, Sir, on the air. Who do you wish to speak to -- there's Mr. Magill -- here's Mr. Lochhead. Mr. Taylor isn't here. Do you want to talk to him?

Archie
Lochhead: Good afternoon.

H.M.Jr: Hello.

L: Well, have you heard anything on the bond market yet?

H.M.Jr: Not a thing.

L: Well, it took care of itself quite well today.

H.M.Jr: Fine.

L: The two and one-half closed at ninety-nine twenty six.

H.M.Jr: Ninety-nine -

L: Twenty-six.

H.M.Jr: Ninety-nine -

L: Two six.

H.M.Jr: Ninety-nine, six --

L: Yes, that's just up two thirty-seconds.

H.M.Jr: Yes.

L: A lot of the other issues are up a lot more than that. You know, there was a lot of evening off from your prices of yesterday. Some of them went up as high as ten -- ten fifteen-thirty-seconds. And there was only \$750,000 spent today. And there was a much better tone, in fact, towards the end a couple of people were apparently short because there were bids coming over the tape for cash bonds, and they were bidding about -- at one time as high as ten thirty-seconds over the market to get cash bonds. That showed, of course, there were just a couple of people

caught short on the deliveries. The stock market had quite a bad break. It went off three and three-quarter points.

H.M.Jr:

L: Right.

H.M.Jr:

stocks and bonds.

L:

Industrial stocks went off three point seven seven.

H.M.Jr:

Point seven seven. Is Magill in the room?

L:

Magill's right here.

H.M.Jr:

I want to talk to him later. Stocks off three seven seven?

L:

That's right.

H.M.Jr:

How much is railroad off?

L:

Railroad went off two point naught two.

H.M.Jr:

That's Magill's statement?

L:

Yes, he timed that very well.

H.M.Jr:

I hope you all got in on it all right.

L:

I think he -- he didn't let us know until after the close of the market yesterday.

H.M.Jr:

He didn't?

L:

Now on the commodities --

H.M.Jr:

I hope the fellows got in on the other statement made yesterday.

L:

(Laughs)

H.M.Jr:

L:

Right. Now the commodities -- the Dow Jones index was off point seventeen. Cotton was off today -- down to fourteen thirteen. Exchanges were fairly steady.

Sterling had a little bulge up to four eighty-eight and eleven sixteenths.

H.M.Jr: Did you do any business?

L: I did two hundred and fifty thousand.

H.M.Jr: Pounds?

L: How?

H.M.Jr: Pounds?

L: A pound.

H.M.Jr: But we just spent what?

L: One million three hundred and fifty.

H.M.Jr: Attaboy.

L: It was just a chance to get rid of one lot of two hundred and I used the opportunity.

H.M.Jr: Well, that's the way to do it.

L: Yes. Now, one other thing -- it may be interesting -- I'm just going to mention it to you, and that is, a lot of the gold that has been coming from London lately we've been checking on and found that there's been twenty million in Russian gold.

H.M.Jr: Russian gold.

L: Russia has been selling gold in the London market and that accounts for some of these shipments that have come over. We've traced three lots amounting to twenty million.

H.M.Jr: Just hold the wire a second. Just a minute.

L: Right.

H.M.Jr: Got a telegram? I thought I heard the boy. Just a minute, they've sent that telegram.

L: Yes, we sent you a long telegram -- Harrison statement.

H.M.Jr: Yes, wait a second, it just came. Hold on. Hold the wire, if you please.

L: (Aside to someone) You saw most of it. I think it was just the last part --

H.M.Jr: Hello?

L: Yes.

H.M.Jr: The telegram just came. Go ahead.

L: O.K. Well, that gold, we found, is new production and they've been selling it in London and the Chase Bank has been buying it in London for dollars.

H.M.Jr: Yes.

L: And we checked up with the Assay Office and those are the only items that have come through from Russia.

H.M.Jr: What is it?

L: About \$20,000,000.

H.M.Jr: \$20,000,000.

L: And that's all new production. It's not any of the old gold.

H.M.Jr: Where was it smelted?

L: It was smelted over in Russia.

H.M.Jr: So it has their mark?

L: It has their mark. And -- because we traced up with the Assay Office and they're watching for anything else that may come in with those marks on.

H.M.Jr: That's interesting.

L: Yes. Well, we're just a little suspicious about some of the gold that was coming -- the quantities from London and the Bank of England more or less said there were some activities because the London mark was Russian so we checked through and found that out.

H.M.Jr: Yes. All right.

L: Now then, do you wish to speak to Mr. Magill next?

H.M.Jr: Please.

L: Right.

Mr. Magill: Hello.

H.M.Jr: Hello, Roswell.

M: How are you?

H.M.Jr: O.K.

M: Well, I talked to Altmeyer as soon as I got done speaking to you --

H.M.Jr: Yes.

M: And everything seems to be all right with him. He's very much disturbed about other aspects of this agreement besides the one we're disturbed about.

H.M.Jr: I see.

M: And I asked him if he'd like to attend this conference next week and he said he'd be very glad to.

H.M.Jr: What conference is that?

M: This one that Senator Harrison suggested which we get together and discuss the rates and so forth.

H.M.Jr: Oh, fine.

M: And I think he's a good friend and I think we'd better get him there.

H.M.Jr: That's what I thought. I was going to suggest that.

M: Yes. I'll make a point of seeing about Monday and piling him up a little.

H.M.Jr: Good.

M: Now, I also called Mr. Doughton and told him the substance of my conversation with the Senator --

H.M.Jr: Good.

M: And he thought that was very good. He said he's going down to North Carolina and wouldn't be back until Wednesday.

H.M.Jr: Well --

M: And I said unless you think there's a big hurry, why,

we'd better wait until you get back. He said I don't see any hurry at all. (Laughs)

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H.M.Jr: Good.

M: Yes.

H.M.Jr: That means there'll be no conference until he gets back.

M: That's right. And I said I thought that perhaps before we went into the big conference which would involve all these outside people, that he might like to have me come up and talk to him and one or two members of the committee privately about the situation, and he said he thought that was an excellent idea.

H.M.Jr: I'm just to the end of this telegram.

M: Must be wrong. I just read it myself.

H.M.Jr: And I think that that's -- it says here agreement reached by the Railroad officials and railway organization on the railroad retirement plan - ah - Harrison said he believed there would be several more conferences between the brotherhoods, railroad officials, railroad retirement Board and Treasury to iron out all

M: Yes.

H.M.Jr: Well, that's perfect.

M: Yes. I think in that previous sentence I guess that was sent to you at the same - just before there, at the same time Harrison said there would be no legislation to carry out the agreement. He can't have said that. I don't know what he did say --

H.M.Jr: Well, that's perfect. In other words, Treasury and the Hill are playing ball.

M: That's right.

H.M.Jr: And as long as we are in that position we've got nothing to worry about.

M: I think we're in good shape. As I told you this morning he was -- he was extremely friendly. He called me up first while I was in here talking to you.

H.M.Jr: Yes.

M: And apparently the reason for it was that he had in mind this statement which he issued. I don't think he -- I don't think the railroad business was bothering him at all.

H.M.Jr: Yes.

M: And, as I say, we, L. H. Parker and I, talked it all over with him and then he gave this thing out.

H.M.Jr: Well -- I think everything is sitting pretty tonight.

M: Looks all right. Do you want me to plan to stay here over the weekend, or do you think we're all right?

H.M.Jr: Let me ask you a question, and give me a very frank answer. How much would it inconvenience you to stay there Friday?

M: Not badly. I could stay here Friday.

H.M.Jr: I mean could you make up the classes?

M: That's right. Yes, I could.

H.M.Jr: Well, if it wouldn't inconvenience you badly, say until 4:00 o'clock -- hello --

M: Yes.

H.M.Jr: I would appreciate that.

M: I think I -- I think that's all right. I'll be glad to do it.

H.M.Jr: And you could take whatever that class is and make it up on the end.

M: Yes. Well, that can be arranged all right.

H.M.Jr: I tell you, though, if it would inconvenience you greatly, I wouldn't do it.

M: No, that's all right. It won't --

H.M.Jr: Because, if something should break on this thing - because I'm worrying so much that somebody else would step in and mess it up.

M: Yes.

H.M.Jr: And right now it's sitting pretty.

M: Yes. Well, that's quite all right, and as a matter of fact, it wouldn't do any very bad harm to call off the whole weekend if you want to do it.

H.M.Jr: No.

M: But I can call off the Friday afternoon session without --

H.M.Jr: No, 4:00 or 5:00 o'clock will be late enough.

M: Yes.

H.M.Jr: All right.

M: That'll be quite all right.

H.M.Jr: Well, I'd appreciate that.

M: Yes. I'll be glad to do that. I'll call them up in New York and tell them about it now. Now do you want to talk to someone else?

H.M.Jr: Wayne, and then, if Mrs. Klotz goes into her room I want to talk to her when I get through.

M: Yes. But you haven't any further suggestions on this legislative situation now --

H.M.Jr: Why, it's just sitting beautifully. is all we can do for the Treasury.

M: (Laughs) Well, I hope it keeps on. All right, I'll put Wayne on.

H.M.Jr: I hope it doesn't burn.

M: (Laughs)

H.M.Jr: I don't like

M: No, neither do I. I----not at all.

H.M.Jr.: All right. Now everything is fine. I'm very much pleased.

M: Good.

H.M.Jr.: You handled a very difficult situation very well.

M: Well, thank you very much. You did the most of it.

H.M.Jr.: Well, I just backed you up. Wayne there?

Taylor: Yes.

H.M.Jr.: Wayne? Hello.

Taylor: Right.

H.M.Jr.: Why didn't you think of it long ago to tell those boys they'd have to spend their own money.

Taylor: (Laughs)

H.M.Jr.: What?

Taylor: Well, that's where there is room for thought in that. There's only one figure on the sheet, the whole sheet, that bothers me, and that is that the corporate bond went off. I talked to Burke just after the close and he's going to scout around a little bit and see whether that can be attributed entirely to the fault of the stock market or not.

H.M.Jr.: Well, why did the stock market fall?

Taylor: With sellers and buyers.

H.M.Jr.: Well, it looks as though the jam were broken.

Taylor: Yes. I mean all the other--I mean that's----we've been trying to draw a pattern today. For our purposes we would have drawn it exactly the way it turned out, except for this corporate bond thing.

H.M.Jr: Well, if we get any explanation of the corporate bond, phone it to me at 5:30, will you?

Taylor: Yes.

H.M.Jr: I'll be here.

T: It may be just sympathetic with the stock market because that might do it, but as I say, that's the only figure on the whole sheet that doesn't suit our book.

H.M.Jr: Well, you'll have something more on taxes for me at noon tomorrow.

T: Yes.

H.M.Jr: Bartelt.

T: We look all right as far as balances go.

H.M.Jr: We do. What do they look like?

T: Well, fifty-six remain in the Federal Reserve Bank, five thirty-one in the depository, and we're going to put out a call for a hundred for Monday.

H.M.Jr: Well, there's no sense in my coming up. Hello?

T: Yes.

H.M.Jr: I say there's no sense in my coming up.

T: Oh, no.

H.M.Jr: Well, that's the way -- if it stays this way another day, then I think we'll be all right, don't you?

T: Oh, yes, I don't see any reason for it.

H.M.Jr: All right.

T: Ah -- certainly, until you see those final tax figures.

H.M.Jr: All right. I'll talk to you again tomorrow.

T: Right.

H.M.Jr: Good night.

H.M.Jr: Hello.

T: Have you transferred the call?

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H.M.Jr: Mrs. Klotz.

T: Have you transferred the call?

Treasury
Operator: Yes, sir.

H.M.Jr: Mrs. Spangler.

T.O: Yes, sir.

H.M.Jr: Give me a white light.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 18, 1937, 8 p.m.

NO.: 380

It is useful to have the following background in mind in considering the situation growing out of the Clichy affair -

For ten months there has been a Left Government in power here. The driving force of this Government has come from the clustering Left elements of Communism and organized labor in considerable measure. During this period something of a social revolution has been accomplished in France - without disorder. Long overdue reforms have been realized. Recently the militant elements on the Left have seen their program suspended and hope of further progress blocked for the time being by the Government's financial difficulties which they are apt to believe are caused by the Right political groups' opposition as well as that of the "moneyed classes".

These Left elements in many instances believe that the conservative opposition is seeking not only to prevent further ^{social} progress, but even to sabotage the gains made up to the present. In order to deal with the financial emergency and to push ahead with their social program, the extreme Left was prepared to adopt drastic measures of control. They saw the Popular Front Government revert

instead

- 2 -

instead to orthodox measures, call a halt on expenditures, and "pause" in the realization of its reforms in the economic field.

It was only to be expected that under these circumstances dissatisfaction would exist in the ranks of the labor unions and communists. The belief had been held, however, that for at least some time this dissatisfaction would be kept within reasonable bounds. Probably this would have been done had it not been for the affair at Clichy, which immediately raised an issue between the more moderate elements of the present Government and the Extreme Leftists.

The judicial and administrative inquiries into the affray at Clichy will have to be completed before the exact circumstances will be known, or who was responsible, and as to whether the police had orders from their officers to fire on the communists. However, one thing that seems clear is that in authorizing this meeting of the French Social Party in Clichy - which is a communist hotbed - some one made a serious error of judgment. The best of motives doubtless prompted the authorization, on the ground that any legal political group had a right to hold a meeting anywhere in France. Nevertheless it was a mistake to allow the meeting in view of the state of mind known to exist among the communists.

- 3 -

Yesterday for a time it appeared that the communists were considering a break with the Government, but this looks much less likely today. The Right parties at first showed indications of wishing to make political capital of the matter, but now they seem to be taking a wiser course - that of regarding the problem as one between the communists and the Government and leaving it for the Government to settle, for the time being at least.

An interesting factor to note is that the order issued by the trade unions of the Paris region in which a half-day general strike was declared, states that this demonstration is in no sense directed against the Popular Front Government.

In my judgment, it is not likely that the Clichy affray will lead to any further serious disturbances. I believe that the communists will, while making as much trouble as possible for the Government, refrain from pushing matters to an extreme which would bring about the downfall of the Governments, just as they have done in several other critical moments during the existence of the Popular Front Government.

END MESSAGE.

WILSON.

EA:LWW

March 18, 1937.

Mr. Hans

Mr. Reagh

Subject: Conference held in Mr. Magill's office on March 16, 1937, to discuss proposed railroad retirement bill.

Those present at the conference were Messrs. Magill, Reagh, and Brown, of the Treasury Department; Messrs. A'Hearn and Bailey, of the Budget Bureau; Mr. Altmyer, of the Social Security Board; and Messrs. Latimer, Glenn, and Eddy, of the Railroad Retirement Board.

Certain legal problems in connection with the tax provisions of the proposed bill were discussed briefly. It was agreed that the attorneys for the Railroad Retirement Board and the Treasury Department would get together for a further discussion of these legal problems.

The discussion of the actuarial soundness of the proposed bill centered around the valuation assumptions upon which Mr. Latimer's cost figures were based, and the figures intended to show that if the railroads had been covered under the Social Security Act, it would cost the Government about \$12 million annually in addition to the Social Security taxes.

Mr. Latimer's cost figures were based upon the assumption that railroad employees, other than those retired on account of disability, would retire at age 70. Statistics of private railroad pension plans were presented in support of this assumption, although it was admitted that the rules and regulations governing these private railroad pension plans were such that the experience was not directly applicable to the proposed retirement plan. Mr. Glenn stated that they were undoubtedly "skating on thin ice" and clearly indicated that he was not willing to strongly defend the estimates. Mr. Altmyer expressed doubt about the soundness of the assumption in respect to average retirement age.

After some questioning in regard to the "differential" of .53 percent of the railroad payroll between the cost of Social Security benefits and the value of Social Security taxes, as applied to the railroads, Mr. Latimer admitted that this differential took into

Handwritten: 3/18

Handwritten: Joe Davis Humphreys

account only the difference in cost during the first forty years and that probably no absolute differential could be shown. (I have since obtained further information from Mr. Glenn on this point, and found that this differential was obtained by comparing the present value of Social Security taxes and benefits in respect to present railroad employees only. In other words, no account was taken of the fact that taxes which would be collected in respect to new entrants into the railroad industry would be much more than sufficient to provide the benefits which new entrants would receive. The cost of the proposed bill, determined on this same basis, is a level 9.88 percent of the railroad payroll. In other words, it would require 9.88 percent of the annual earnings of present railroad employees to pay for the benefits which they would receive under the proposed bill. This percentage is derived from their own figures, which were based on an average retirement age of 70. The differential which Mr. Latimer shows to be necessary to balance his cost figures is actually a "negative differential," i. e., the Government will lose rather than gain on account of the exclusion of the railroads from the Social Security Act. Mr. Latimer could not consistently object if this negative differential were added to the cost of the proposed bill.)

If we accept Mr. Latimer's valuation assumption in respect to the average retirement age and consider no differential on account of the exclusion of railroads from the Social Security Act, Table A of Mr. Latimer's memorandum shows that the tax revenues provided under the proposed bill would be insufficient to meet the benefit payments after the year 1947, and that on a 3 percent reserve basis the Government would be required to contribute more than \$30 million annually after 1961. If the tax rate should be increased to a level 7 percent, and if present railroad pensioners were retained on the railroad pension rolls, the plan would be approximately self-supporting (assuming the average retirement age of 70).

RECEIVED

MAY 1 1937

FEDERAL BUREAU OF INVESTIGATION

U. S. DEPARTMENT OF JUSTICE

OFFICE OF
THE SECRETARY OF THE TREASURY

234

March 18, 1937.

MEMORANDUM FOR THE SECRETARY:

As you asked a few days ago, I have taken up with our Customs people the matter of securing agreements with other countries similar to that recently consummated between this country and France with respect to cooperation in the suppression of Customs frauds.

Mr. Gorman has now written to Wait at Paris, Lewis at Montreal, and Creighton at San Antonio, Texas, suggesting that they take up the matter informally with the appropriate customs officials in the countries within their respective jurisdictions. This will include Belgium, England, Canada, and Mexico. I attach copies of Mr. Gorman's letters, and will of course keep you posted as to further developments.

GRAVES.



CONFIDENTIAL

March 17, 1937

Mr. Bernard Wait,
Supervising Treasury Attache,
Paris, France.

Dear Bernard:

I learn, through Mr. Graves, that the Secretary has expressed himself as being much pleased with the consummation of the agreement entered into on December 15, last, between this country and France with respect to the suppression of customs frauds in the respective countries, - and has inquired whether appropriate steps could not be taken looking to the formulation of similar agreements with Great Britain, Belgium, or other countries, that might be favorably disposed to such an approach.

Since the French agreement largely had its genesis in your conversations with the French officials relative to the furnishing of certain documentary evidence in the Goldberg case, it occurred to us here in Washington that similar informal missionary work on your part with the appropriate foreign officials in Belgium and England, as the basis for the formulation of an agreement, similar in all respects to the one with France, would have much effect.

While of course the exchange of information bearing on narcotic cases is of first importance, for obvious reasons we would not want to give emphasis to nor even make mention of that phase, - merely refer to the exchange of information concerning imports and exports which might facilitate the suppression of smuggling of fraud in the other country.

I should appreciate an early expression of your views on the subject.

Sincerely yours,


Deputy Commissioner of Customs.

CONFIDENTIAL

March 17, 1937

Mr. Elmer J. Lewis,
United States Treasury Attache,
811 Castle Building,
Montreal, Canada.

Dear Elmer:

I learn, through Mr. Graves, that the Secretary has expressed himself as being much pleased with the consummation of the agreement entered into on December 15, 1936, between this country and France, with respect to the suppression of customs frauds in the respective countries, and has inquired whether appropriate steps could not be taken looking to the formulation of similar agreements with other countries that might be favorably disposed to such an approach.

Incidentally, I may state that the French agreement largely had its genesis in conversations had by Mr. Wait with French officials relative to the furnishing by it of certain documentary evidence in the Goldberg case, and the furnishing by this country of certain evidence desired by the French Government. In view of this, I have this day written Mr. Wait suggesting that he initiate similar informal missionary work with the appropriate foreign officials in Belgium and England, as the basis for the formulation of agreements with those countries similar in all respects to the one with France.

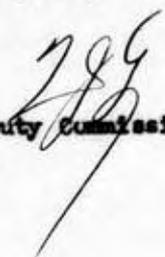
It has occurred to us here in Washington that you might be in position to informally sound out the appropriate Canadian officials on the subject, especially those charged with smuggling enforcement, - provided they are in sympathy with such an agreement, and join with them in arriving at some workable plan that can be put into effect without the interminable delay which usually attaches itself to such measures.

While of course the exchange of information bearing on narcotic cases is of first importance, for obvious reasons we would not want to give emphasis to nor even make mention of that phase, - but merely refer to the exchange of information concerning imports and exports which might facilitate the suppression of smuggling or fraud in the other country.

-3-

I should appreciate an early expression of your views on the subject. I might add that I have written Creighton suggesting similar informal representations on his part with Government officials of Mexico.

Sincerely yours,


Deputy Commissioner of Customs.

Inclosure.

G:G

CONFIDENTIAL

March 17, 1937

Mr. H. S. Creighton,
Supervising Customs Agent,
P. O. Box 888,
San Antonio, Texas.

Dear Harry:

I learn, through Mr. Graves, that the Secretary has expressed himself as being much pleased with the consummation of the agreement entered into on December 15, 1936, between this country and France, with respect to the suppression of customs frauds in the respective countries, and has inquired whether appropriate steps could not be taken looking to the formulation of similar agreements with other countries that might be favorably disposed to such an approach.

Incidentally, I may state that the French agreement largely had its genesis in conversations had by Mr. Wait with French officials relative to the furnishing by it of certain documentary evidence in the Goldberg case, and the furnishing by this country of certain evidence desired by the French Government. In view of this, I have this day written Mr. Wait suggesting that he initiate similar informal missionary work with the appropriate foreign officials in Belgium and England, as the basis for the formulation of agreements with those countries similar in all respects to the one with France.

It has occurred to us here in Washington that you might be in a position to informally sound out the appropriate Mexican officials on the subject, especially those charged with smuggling enforcement, - and, provided they are in sympathy with such an agreement, join with them in arriving at some workable plan that can be put into effect without the interminable delay which usually attaches itself to such measures.

While of course the exchange of information bearing on narcotic cases is of first importance, for obvious reasons we would not want to give emphasis to nor even make mention of that phase, but merely refer to the exchange of information concerning imports and exports which might facilitate the suppression of smuggling or fraud in the other country.

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I should appreciate an early expression of your views on the subject. I might add that I have written Lewis suggesting similar informal representations on his part with Government officials of Canada.

Sincerely yours,



Deputy Commissioner of Customs.

Inclosure.

G:G

JOHN IHLDER
341 P STREET N.W.
WASHINGTON D.C.

March 18, 1937

Mr. Henry Morgenthau, Jr.
Cloister Hotel
Sea Island, Georgia

Dear Mr. Morgenthau:

This is in response to your questions: A, What is wrong with the Wagner Housing Bill; B, From a sound financial standpoint what should the bill do to promote,

1. slum clearance (reclamation)
2. provision of low-cost (low-rent) housing.

A

What is wrong with the Wagner Housing Bill

In general; it denounces slums and substandard housing, but makes no effective provision for dealing with them; it expresses concern for families of low income, but its provisions are designed to benefit only the "subsistence" stratum of our population, i.e., those who are almost self-supporting, not the poorest; it would tend to perpetuate substandard wages in the sweated trades; it would concentrate Federal expenditures upon new construction on vacant land at a time when a building boom seems to be starting, so accentuating that boom - and the subsequent recession; it provides a subsidy variously estimated at from 60% to 125%, said by its drafter to be 100%, which will contribute to the already rising cost of materials and construction, so making low-cost housing more difficult; it relieves borrowers (local public housing agencies) of any financial responsibility, so tempting to extravagance, waste and worse; it provides for administration by a board, so making easier effective political and financial pressure, and passing of responsibility.

More specifically,

1. The bill deals with only a part of the stated problem. Therefore it can not solve that problem. Ira S. Robbins, counsel of the New York State Board of Housing, in his Digest of the Wagner-Steagall Housing Bill, mentions the word "slum" only once. He says "Low rent housing may include slum clearance undertakings." (The underlining is mine).

Mr. Henry Morgenthau, Jr. (2)

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2. The part of the problem with which the bill deals doubtless appeared to be the easier part - construction of new houses on vacant land. Even this part, however, can not be carried to any worthwhile conclusion without integrating it with the other part - slum reclamation. Theoretically, of course, the bill permits erection of new low-rent housing on cleared slum sites. But the terms of the bill would make such procedure exceptional.

Any expectation that new housing on vacant land will drain the slums disregards experience. Slum populations in our industrial cities decreased during and after the World War because of restriction of immigration - prospering families moved out, few new recruits came in. But the sediment, the permanent slum population remained even during times of housing surplus. During the depression families who had moved out, moved back.

3. The bill is still, in this third year of its appearance, essentially an emergency measure. It speaks of business stagnation and of unemployment. Times have changed. We seem to be at the beginning of a building boom. Building materials have risen in price to an extent that materially increases cost of construction. Estimates on future construction assume a continued and sharp rise in prices of materials. Some producers today are unable to keep up with orders. The building trades are now fairly well employed. Prophecies are that there soon will be a shortage of skilled building labor. In all this government housing has, as yet, had no appreciable part.
4. If the bill were to have the designed effect of stimulating new construction on vacant land - without causing slum reclamation, it would, to the extent it is successful, tend to defeat its own purpose. During the next two or three years it would:
 - (a) accentuate the boom, cause an additional rise in construction costs and so make provision of low-rent housing more difficult.

Mr. Henry Morgenthau, Jr. (5)

5/18/37

- (b) supplement the products of private enterprise and so give us sooner an apparent surplus of dwellings, i. e., vacant dwellings. This surplus will be in terms of quantity, not quality - the slums will remain.
 - (c) cause an insistent demand that government cease competing with the vacant houses owned by taxpayers. The probable result will be a slowing down, perhaps even a stopping of the public housing program before it has secured either an adequate supply of low-rent dwellings or had any appreciable effect in slum reclamation.
5. The bill would not help the poor. Even some of its advocates admit that it is designed to benefit only the "subsistence" stratum of our population. The poor must be left to relief. But relief can not build and manage houses.
 6. It would help to perpetuate low wages in the sweated trades by promising to provide, at the expense of taxpayers through subsidies, new dwellings "within their financial reach".
 7. It would tend to create difficult and irritating management and political problems by necessitating such measures as the means test. The means test forces a housing agency to adopt the procedure and technique of a relief agency. In England its application to housing has caused "marches" and demonstrations.
 8. It would create whole subsidized areas that are admitted to be non-self-supporting. This, together with the subsidy on construction costs and the consequent limitation on rents and on the income of tenants, would create problems in municipal development, maintenance and administration.

Mr. Henry Morgenthau, Jr. (4)

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9. Its financial provisions are not clear. At a small conference before the bill was introduced the statement was made that under this bill the Federal government could loan all the capital that is needed for a project, and then itself pay the interest on this loan and amortize it. At a public meeting on March 8, Senator Wagner's secretary said the bill provides for a 100% subsidy. Persons who have studied the bill differ. Some say it provides a 60% subsidy, some say that a clever borrower could get for nothing 114% to 125% of the cost of a project.
10. It imposes little or no financial obligation on the borrower. Therefore it tempts to extravagance and waste, if not worse.
11. It divides responsibility for administration among three persons. This makes it easier to bring political or financial pressure to bear, and makes it easier for each of the three to shift responsibility.

B

From a sound financial point of view, what should the bill do to promote:

1. Slum clearance (reclamation)
2. Provision of low cost (low-rent) housing.

In general; the bill should provide for a balanced program of slum reclamation and rehousing with the possibility of providing additional low-rent housing when conditions warrant and, without affecting the reclamation and rehousing program, cutting down or cutting out additional house building if and when conditions do not warrant continuance; it should provide definitely for all income grades from the lowest up to self-supporting; it should encourage, not check, ambition and a rising standard of living on the part of tenants; it should utilize Federal expenditures so that they may most effectively

Mr. Henry Morgenthau, Jr. (5)

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promote both slum reclamation and provision of low-rent housing in terms of varying conditions of time and place; it should utilize grants (subsidies) so that they may correct abuses, eliminate continuing evil conditions that are handicaps, and defray expenses inherent in governmental operation; it should require local financial participation in order to check extravagance and waste; it should concentrate power and responsibility for administration of the Federal Housing Authority in a single director or administrator who can be held to strict account.

More specifically,

1. The bill should provide for a definite program of slum reclamation, accompanied by a program for the rehousing of those whose slum dwellings are demolished.

Slum reclamation means redevelopment of the site for a use that will serve the interests of the community and the neighborhood. This often does not mean low-rent housing. Consequently a reclamation program must be accompanied by a program that will assure other dwellings to the de-housed. These other dwellings may be on the same site, often they will be elsewhere. They may be new dwellings or they may be reconditioned old dwellings; they may be erected or reconditioned by the public housing agency, or they may be in private ownership.

In other words: Slum reclamation means finding and putting into effect the best use for the site. Rehousing means, finding and utilizing the best site for low-rent housing. These are two distinct but complementary activities. Neither one can be carried to a conclusion without the other.

The continuance of the slum will check house construction before there is an adequate supply of good dwellings, for the slum will continue to be occupied, its rents will be reduced to the extent necessary to undercut good dwellings, so there will be vacant dwellings, an apparent surplus, before the real need has been met. Lack of good low-rent housing will check slum reclamation.

Mr. Henry Morgenthau, Jr. (8)

5/18/37

Reconditioned houses form interim housing. They may be used to postpone demolitions and consequent replacements during a period of shortage or high building costs. Meanwhile, because they cost less and therefore may be rented for less, they make easier the economic readjustment of former slum dwellers.

This program is sounder, both economically and socially, than one which contemplates transferring a slum population en masse directly from the worst dwellings in the community to brand new dwellings. These new dwellings should be superior in the essentials of good housing to many existing dwellings that are not ripe for demolition and that are and will continue to be occupied by self-supporting families.

Such a program appears to be possible under the proposed amendment to the New York State Housing Law (Nos. 129, 1543, Int. 129. In Assembly January 13, 1937). While its language is somewhat confused, it definitely recognizes and provides for slum reclamation as distinct from provision of low-rent housing.

2. The bill should provide for construction of additional low-rent dwellings when there is a shortage that will not otherwise be remedied.
3. It should definitely provide for the reconditioning of existing houses when this is desirable and practicable.
4. It should definitely permit writing-down cost of site acquisition to new use value. When the new use will produce a high income this will not be necessary. But if the best use for a site is low-income producing, then the new use can not absorb the cost of acquiring and eliminating present income-producing (though substandard) structures. Therefore subsidy in this form is sound both economically and socially.
5. It should provide definitely, not for a "subsistence" stratum to whom a slightly lowered rent means adequate relief, but for the much larger part of our population whose need includes adequate food and clothing and sometimes all rent.

Mr. Henry Morgenthau, Jr. (?)

3/18/37

It will make this provision, not by construction subsidy (which would at best meet only part of the need and which in fact would go in part or in whole to builders, not to tenants), or by a rent subsidy (which offers temptations to private landlords and is very difficult to administer in public housing estates), but by providing proper dwellings at the lowest cost consistent with avoidance of a deficit. This is the proper function of public housing. A public reclamation and housing agency can provide houses at reduced rentals by utilizing low-interest public money.

Admittedly many families can not afford even the reduced rents. They could not afford rents that actually were cut in half by subsidy. Even if houses were provided rent free, there are many families who require other assistance. In other words, when one goes below the line of self-support - which includes ability to pay an economic rent for a proper dwelling, there are infinite gradations in the requirements for relief.

To provide for a small proportion of these families through the relief given by housing subsidy, means the introduction of a cumbersome and ineffective method*, forces the housing agency to adopt a technique alien to its purpose, divides responsibility with the relief agencies and so prevents the latter being held accountable for results. Their objective is family rehabilitation. In this they can be aided by having as a resource, an adequate supply of proper dwellings. But they should be free in dealing with their clients to select any proper dwelling, whether in public or in private ownership, to take advantage of opportunities in the way of location as well as rent scale. They should be free to permit their clients to live among self-supporting families, not be under compulsion to put them in designated dwellings or in a community of subsidized dwellings that will

*Illustrative is the provision in the Wagner bill, Sec. 2 (1) page 4, lines 1-3, limiting the incomes of prospective tenants. In actual practice this may operate quite contrary to the intent.

Mr. Henry Morgenthau, Jr. (8)

5/18/37

become known as a glorified poor house and in which their relations with their clients will be complicated by the intervention of another relief agency in the guise of a landlord.

It is to be noted that the proposed write-down of site acquisition cost is not a housing subsidy. It is a reclamation subsidy. Its purpose is not to reduce rents, it is to bring the site into a constructive use that will benefit the community and the neighborhood. It would be a 100% subsidy if the site were donated for a public park or playground. It would be a lesser subsidy if the site were converted to such a use as automobile parking or a storage yard. If low-rent housing is put on such a written-down site, it will be because that use of the site serves the community better than any other use - otherwise the houses would be put elsewhere. So the subsidy is not a housing subsidy.

6. The bill should permit the local housing authority to adapt its program to local needs, emphasizing slum reclamation or provision of low-rent housing as circumstances warrant.
7. It should make its grants apply to those factors in the program from which no return may legitimately be expected; as, the wiping out of substandard but income-producing structures; the writing-down of costs of sites which because of over-intensive development, legal complications, or other reasons are higher than the new use warrants; or for administrative expenses inherent in government operation. It should not make grants on construction costs, because, among other reasons, such grants will tend to increase construction costs.

While the public housing program is small, such increases would probably affect only the project to which they are applied. But if the program assumes proportions adequate to its purpose, they might raise construction costs generally.

8. The bill should require some participation in financial responsibility by the borrower in order to check tendencies toward extravagance and waste.

At present it is not to be expected that states or cities will advance part of the capital, for both

Mr. Henry Morgenthau, Jr. (9)

3/18/57

financial and legal reasons. It may be the part of wisdom for the Federal government to pay the interest on its loans, as I understand the Wagner bill provides. But the borrower should at least amortize the capital value of the loan out of revenues. This requirement is not only fair, but it should have the good effect of making the borrower consider relationship between costs and expected revenues.

This requirement should not be based upon the revenue from a particular project, but upon all revenues from all projects under the borrower's control. For in slum reclamation certain projects may well produce little or no revenue if they serve their primary purpose of substituting good conditions for bad ones. But the loss on them should be made up by profits on other projects. Therefore the amortization should be on the total borrowings, irrespective of the individual projects on which the proceeds are spent.

9. In addition to financial participation, the borrower, or the community that asks for a demonstration project, should not only demonstrate the need, but should present evidence that regulatory laws under the police power, setting minimum standards for construction and maintenance, are being enforced. For the Federal government should not finance slum reclamation if new slums are meanwhile created, nor finance good housing while jerry-built housing is permitted.

Admittedly such requirements would slow down the program at the start, but over a period of twenty years they would cause more slum reclamation and more new good housing than will be possible without them.

10. Last, the responsible head of the Federal Housing Authority should be an individual with adequate powers, who can be held strictly accountable. The job requires both initiative and the ability to say "No". In some ways it will require tireless energy in promoting constructive action. In other ways it will require great courage in refusing requests.

Sincerely,

JL:8

JOHN IHLER

FEDERAL RESERVE BANK
OF NEW YORK

W. Lockhart 249

OFFICE CORRESPONDENCE

DATE March 19, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF FRANCE.

Mr. Cariguel called at 12:52. He stated that in spite of the trouble they had had in Paris on Wednesday, things continued to go satisfactorily. Even on Wednesday, although the market was up a bit, they did not have to intervene at all, he said, but, as a matter of fact, were even able, at the end of the day, to buy a small amount of foreign exchange. Yesterday he had taken in about £500,000; today it was more than that. I asked, whether taking the thing as a whole he was satisfied with the way foreign exchange had come back. Cariguel replied "Absolutely, my only wish is that it should continue." I suggested that, according to figures which we had seen, he must have recovered more than £30,000,000. Cariguel replied that, including the gold, it was more than that; as a matter of fact, nearly £40,000,000. I asked whether the gold which he purchased had come out in Paris or abroad and Cariguel replied "Mostly in Paris and some in Brussels."

He then referred to his cable of yesterday, stating that we were to receive \$2,000,000 today from the Irving Trust Company, and wanted to know whether the money had come in. I replied that we had received \$2,000,000 in clearinghouse funds (the Irving's own check) which, as far as we were concerned, would go through our books tomorrow.

LWK:KMC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 19, 1937, 1 p.m.

NO.: 384 FROM COCHRAN.

A person now associated with one of the important Paris banks (and formerly Governor of the Bank of France) has in extreme confidence provided the following figures he has prepared on the subscriptions to the National Defense Loan by the leading banks:

1.7 billion francs by Credit Lyonnais

1.4 billion francs by the Bank of France

1.0 billion francs by the Société Générale

800 million francs by the Comptoir National d'Escompte

550 million francs by the Credit Industrial et Commercial

These subscriptions make a total of 5,450,000,000 francs.

An item of 200,000,000 subscribed by the Government "Caisses" for expense was added by him to this amount, making a total of 6,650,000,000 francs. There were of course subscriptions from many other French banks in addition to the above total. However, it is understood that the small capital holder has not subscribed, the subscriptions coming usually in fairly large sums.

My informant tells me that bankers agree that there has been practically no subscription to the loan by foreign capital. Switzerland was the source of considerable sums,

but

- 2 -

but this was repatriated French capital, according to his understanding. An investigation has been made by the bank with which my contact is associated as to the sources of the funds used to purchase from it bonds which had been taken from the Treasury by the Bank itself. It is their estimate that brokers or bankers acting as intermediaries were the source of about 30 percent of the funds; the proceeds of arbitrage of other securities (principally rentes of the French Government) accounted for about 20 percent;

END SECTION ONE.

WILSON.

0120014
1944
EA:LWW

PARAPHRASE OF SECTIONS TWO AND THREE OF TELEGRAM NO. 384 of March 19, 1937, from the American Embassy, Paris.

French francs held in deposit accounts or domestic hoards accounted for 30 percent, and liquidation of foreign exchange produced 20 percent only. The other bankers with whom my informant has spoken agreed with his estimate as to the sources of the subscriptions.

Foreign exchange was said to account for only 20 percent; therefore it would appear that if the full 10 1/2 billion francs were subscribed to the two tranches which are limited to 8 billion francs, and should the Government (as is expected) issue a decree stating that all funds above 8 billion francs and up to 10 1/2 billion shall be retained, then the maximum of foreign exchange which ~~it~~ could be calculated as ~~being~~ obtained for the stabilization fund through the loan would be two and a half billion francs - i.e., 20 percent of ten and a half billion.

From day to day I have reported that no gold was actually being repatriated as such into France and turned into the Bank of France. Such gold as the Bank has received domestically under the new regulations has been principally in gold coin and in very small amounts. My informant above-mentioned, along with other bankers whom I have consulted, think that one billion francs is a generous estimate for the gold received under the new regulations up to the present time by the Bank. It would therefore

appear

- 2 -

appear that around 3 billion francs is the extent to which the gold and foreign exchange resources of the exchange stabilization fund have been restored. Before the influx accounting for the above figures started, it is certain that the stabilization fund was completely exhausted. It is even suspected that the gold may have been borrowed from the Bank of France, which has had to be repaid out of the figures mentioned above. Banking circles do not think that any important amount of capital has been repatriated for any purpose other than subscribing to the loan.

Should the reflux of capital into France now cease or assume small proportions as a result of political disturbances, it seems logical that there will not be an important increase in the resources of the fund, and if really serious difficulties should cause pressure on the franc, the fund would not provide formidable strength for its defense. However, it seems that the needs of the Treasury will be taken care of for the next two or three months, since 8 billion francs are already assured and perhaps more is likely to be taken from the excess subscriptions to the defense loan. In the next few months, therefore, it is the monetary rather than the financial situation which is likely to be the more vulnerable in so far as France may be concerned.

END MESSAGE.

WILSON.

EA:LWW

March 19, 1937.
1:03 P.M.

H.M.Jr: Hello.

Mrs.Klotz: Hello.

H.M.Jr: Hello.

Mrs.Klotz: Mr. Taylor.

H.M.Jr: May I question you about my bond market?

Mrs.Klotz: Oh, yes.

Mr.Taylor: You spent some money today.

H.M.Jr: Did I?

T: Not much.

H.M.Jr: Yes.

T: But more.

H.M.Jr: Yes.

T: Powerful little bit. Kill the ten thirty seconds.

H.M.Jr: Evening out.

T: Not -- not really bad though.

H.M.Jr: How much did I spend?

T: Between the two four million.

H.M.Jr: That's nothing.

T: What?

H.M.Jr: That's not bad. That's all right.

T: Oh, yes, and it doesn't -- the market doesn't feel the way it did on those bad days.

H.M.Jr: I see. And you don't see?

T: No.

H.M.Jr: All right. Anything else?

T: Do you want the commodities and stocks?

-2-

H.M.Jr: Pardon me?

T: Do you want commodities and stocks?

H.M.Jr: If you please.

T: Commodities off eighty-seven hundred.

H.M.Jr: Good.

T: Cotton down below fourteen cents. Fifty and ninety-four.

H.M.Jr: Good.

T: Wheat off not quite a cent. No, wheat off more than a cent, corn not off quite a cent.

H.M.Jr: And - ah - stocks?

T: Stocks? Turned up a little. Industrial's up.

H.M.Jr: How about

T: Mr. Magill's reels went up a half a point.

H.M.Jr: How about bonds?

T: Bonds? Up. That's a good figure.

H.M.Jr: How much up about?

T: Eighteen hundred.

H.M.Jr: Good.

T: That's an hour late though.

H.M.Jr: All right. Now --

T: It seems as if -- that there's nothing doing there.

H.M.Jr: Who's going to tell me about taxes?

T: Who would you like to talk to?

H.M.Jr: Whoever's got the figures -- Bartelt.

Mrs.Klotz: May I say something in between?

H.M.Jr: Yes.

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Mrs.Klotz: Mr. Oliphant has his hat and coat on. Igoe and Keenan are waiting for him. Do you want to talk to him before he goes?

H.M.Jr: He goes -- I go?

K: He go and I go.

H.M.Jr: Sure. I'll talk to him.

K: All right.

Oliphant: Hello.

H.M.Jr: Hello, Herman Where are you going?

O: Going down to the Capitol to the Senate Restaurant to have luncheon with Igoe, Keenan and Helvering. We talked it over with Graves, and that's the way we're handling it.

H.M.Jr: At the Senate Lunch Room.

O: Yes.

H.M.Jr: Why don't you have it in the middle of Pennsylvania Avenue?

O: Well, that's the way Keenan wants to do it.

H.M.Jr: Keenan?

O: He is in charge of the party.

H.M.Jr: Well, have you seen his charges yet?

O: No.

H.M.Jr: (Laughs)

O: No, I haven't anything to report to you.

H.M.Jr: Well, if I may give a little advice --

O: Yes.

H.M.Jr: The Treasury is terribly hurt to think that the Department of Justice would investigate us without first giving us the facts.

O: Yes.

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H.M.Jr: See?
O: Yes.
H.M.Jr: Terribly injured.
O: Yes.
H.M.Jr: They certainly can't understand it that they could do such a thing.
O: That I get.
H.M.Jr: What?
O: I get it.
H.M.Jr: See?
O: Yes.
H.M.Jr: And that's our attitude.
O: Yes.
H.M.Jr: Why don't they do it the way they do in New York or Baltimore?
O: That's right.
H.M.Jr: It was terribly injured.
O: Yes.
H.M.Jr: O.k.
O: I get it.
H.M.Jr: All right, Herman.
O: I can report to you later if you're talking again.
H.M.Jr: Well, I'm calling up after 4:00 o'clock.
O: All right.
H.M.Jr: And if you want to talk to me, tell Mrs. Spangler, will you?
O: All right.

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H.M.Jr: Hello.

O: Yes, I'll tell her.

H.M.Jr: I mean -- I'm --

O: Unless it's important, I don't think I'll --

H.M.Jr: I'm back of the front line trenches and I'm not going to try to tell you how to do it.

O: All right. Unless it's pretty important, I won't bother you.

H.M.Jr: O.k. I'd rather leave it to you and I hope the rest of these days I'm here I can be a human being.

O: All right. I'll take care of it.

H.M.Jr: O.k.

Mrs.Klotz: Do you want Mr. Bartelt?

H.M.Jr: If he knows his figures.

Bartelt: Mr. Secretary?

H.M.Jr: Yes.

B: The figures, both with respect to the income tax and the tax decision are about twenty-five million dollars better than they were yesterday.

H.M.Jr: Well, now let me give you my yesterday's figures. Actually in 611 -- hello?

B: Yes, that's right.

H.M.Jr: Now, you add twenty-five to that?

B: Yes.

H.M.Jr: I see.

B: You get about 635 million.

H.M.Jr: 635.

B: Right.

H.M.Jr: -- Well, that's not so hot, is it?

B: Well, it's better. (Laughs)

H.M.Jr: Twenty-five million better.

B: We're hoping to get some better figures today. We'll have another report tomorrow.

H.M.Jr: Well, let the rest of this stuff go now until Monday, see?

B: Yes. That's right.

H.M.Jr: I'm not going to fuss about taxes now till Monday.

B: Yes. Now the cash balance in the Federal Reserve Bank tonight will be about eighty-four million, and five thirty-one in the depositories or a total of six hundred and fifteen million.

H.M.Jr: How much does that make altogether? Over seven hundred.

B: Six hundred and fifteen million.

H.M.Jr: But the two together is how much?

B: Six fifteen. Five thirty-one and eighty-four.

H.M.Jr: Is how much?

B: Six hundred and fifteen-million.

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

B: And tomorrow we figure that balances in the Reserve Bank will be one hundred and twenty-five million or a total of six hundred and fifty-six million.

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

B: That looks better. Beg pardon?

H.M.Jr: Below six hundred on the two?

B: Six hundred and fifty-six.

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

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B: Yes.

H.M.Jr: All right.

B: Yes.

H.M.Jr: Now, what else?

B: That's all I have.

H.M.Jr: Well, I don't want any tax reports tomorrow. I can wait until Monday.

B: All right.

H.M.Jr: Let me have Magill.

Magill: Good morning. We had that talk with Mr. Eaton and Mr. Kiplinger just as you outlined both this morning.

H.M.Jr: Yes.

M: And they were both very glad to get the information.

H.M.Jr: Yes.

M: Kiplinger went on to say that we want to know his that he's getting out in his letters and he said what he was saying was that the Administration was going to find in June that we're going to have to have some more taxes and that he personally would like to see some more income taxes and Harrison's statement as far as he was concerned was a big laugh, but that he was glad that we were trying to check up on these dribblings. He said as he looked at it, it was a case of fifty million here and a hundred million there and fifty million some where else. So, he was -- both he and Eaton were very sympathetic and I think will give the thing the proper color.

H.M.Jr: Good. Now, Mrs. Klotz gave me the message about Paramount --

M: Yes.

H.M.Jr: And, as a son of a real estate operator --

M: (Laughs)

H.M.Jr: I would sit tight for about a week.

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M: I think that's the thing to do.

H.M.Jr: Yes. See?

M: Say nothing.

H.M.Jr: No. When they begin to with United States Government, I think we can afford to sit tight for a week.

M: Well, I'm not even the son of a real estate operator, but the way it looks to me is that perfectly clearly we can bet six hundred and fifty million dollars (Laughs) -- thousands -- excuse me -- six hundred and fifty thousand cash anytime we want it.

H.M.Jr: Well, I think I -- we can afford to sit tight for a week.

M: He says he's going to start for the Panama Canal on the 28th.

H.M.Jr: Who is?

M: Straus.

H.M.Jr: That's all right. Maybe we'll block the Canal.

M: (Laughs) All right. I think I quite agree with you.

H.M.Jr: All right.

M: I'll just hold the letter in my office and won't tell the Revenue people we're considering it.

H.M.Jr: All right.

M: Anything else?

H.M.Jr: Anybody else --

M: Do you want me to stay on after four?

H.M.Jr: Oh, no.

M: I'll take the four then.

H.M.Jr: Righto. You might take the four.

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H: (Laughs) Oh, I don't need to. All right. (Speaks to men in room) Anyone else here? Mr. Gaston wants to speak to you a minute.

H.M.Jr: O.k.

Gaston: Hello?

H.M.Jr: Hello?

G: Jim Farley called up about that register of the Treasury and some other appointments. He just wanted to tell me that he was going away and he'd be back a week from Monday and he hoped that things could just lie quiet. He didn't think you were committed on anything and if it can just rest until he gets back, why, that's what he'd like.

H.M.Jr: Yes.

G: That's all right?

H.M.Jr: Did you tell him I wanted another position for that job?

G: No, I just overlooked that.

H.M.Jr: All right.

G: Yes. All right. In addition to talking to Harry Eaton and Kiplinger I had Pegler - Wesley Pegler in my office.

H.M.Jr: No!

G: He had a -- in yesterday's column he had about an income tax Revenue Agent who soaked a taxpayer for more - he admitted - for more than the man owed.

H.M.Jr: Eighteen dollars.

G: Yes.

H.M.Jr: I read it.

G: Well, Pegler tells us that the taxpayer was Lee Werk, the Managing Editor of the World Telegram, who seems a poor kind of a victim to pick on. He says --

H.M.Jr: It shows how independent we are.

G: What?

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H.M.Jr:- It shows how independent we are.

G: Yes, doesn't it? At any rate, Elmiry was in and we assured him that didn't represent the spirit of the Treasury or the Bureau and Creekbaum is going to take it up with his agents in New York to find out if any of them are actually behaving that way.

H.M.Jr: Well, if you see Pegler again you tell him that when I come back I'd love to have him come in for lunch some time.

G: Allright, I'll send him that word today. He's going out tonight, but I'll send him that word.

H.M.Jr: Tell him I'd love to have him come in and have lunch with me.

G: Yes. Yes.

H.M.Jr: Is he a nice fellow to meet?

G: Very fine fellow, yes.

H.M.Jr: I'd love to meet him.

G: All right.

H.M.Jr: Anything else, Herbert?

G: No, that's all.

H.M.Jr: Anybody else?

G: (Speaks to men in room) Anybody else? George would like to talk to you.

H.M.Jr: Tell George Haas he'd better take off Saturday and Sunday.

G: All right. He wants to talk to you.

H.M.Jr: He looks a little pale from here.

G: Yes, that's right. All right, here he is.

Haas: Hello?

H.M.Jr: George, you look a little pale.

H: (Laughs) We've got a good television outfit here.

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H.M.Jr: You'd better take off Saturday and Sunday.

H: Well, thank you, Mr. Secretary, I may be down just a little while tomorrow.

H.M.Jr: Well, you'd better -- if it's good weather you'd better play golf.

H: All right. Thank you so much.

H.M.Jr: All right.

H: Say, on your project, you don't have any objection to our getting in touch with Admiral Peoples. I think he has some material over there which would help us.

H.M.Jr: Well, I'm glad you mentioned that. I've cut out of the Times of March 14 --

H: Yes.

H.M.Jr: It seems that they have a new thing called the Public Act.

H: Yes.

H.M.Jr: And they release virtually all the contracts by companies and by commodities.

H: Yes.

H.M.Jr: And this one says six million supplies ordered by United States, a hundred awards made by Public Act, whatever that is.

H: Yes.

H.M.Jr: And then it shows exactly the different sort of materials that were bought.

H: Yes.

H.M.Jr: And - I've been meaning to talk to you about that.

H: Yes.

H.M.Jr: And - no, I think that it's very smart to get in touch with him.

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H: I found this information - that - at the source you told me to go to - at Lubin's office - that I found that in every Government contract there is a clause which provides for the supplying of the Bureau of Labor with information as to materials and labor, etc. on every project. So, when that's compiled over there, at least partially, and we're giving that material, we'll have it in shape for you when you get back.

H.M.Jr: Swell.

H: All right. Goodbye.

H.M.Jr: Anything else?

H: Just a minute. Hello?

Mrs.Klotz: Yes.

H.M.Jr: Anything else?

Mrs.K: I have something.

H.M.Jr: Yes, mam.

Mrs.K: I want to write - do you want to sign those letters to - the letter to Ambassador Sze in regard to the packages we're sending them?

RB
A portion of this telegram
must be closely paraphrased-
before being communicated to
anyone. (A)

PARIS

Dated March 19, 1937

Rec'd 2:40 p. m.

Secretary of State

Washington.

385, March 19, 5 p. m.

FROM COCHRAN. (GRAY)

Paris exchange trading continues quiet with Bank of France today acquiring some sterling and a few dollars. French rentes up 15 to 35 centimes and new defense bonds bid at discount of 21 francs per thousand. French and international shares heavy. French dumping of international holdings is contributing somewhat to strength of franc.

According to market gossip Treasury is planning to offer two year national defence bonds to holders of the three year part of the 1934 treasury issue of $4\frac{1}{2}$ % bonds. Total of issue outstanding is 8,600,000,000 and most all of them are believed to be of the three year variety although there were provisions for six and nine bonds. Since holders must deposit bonds four months before maturity if they are to cash them they
might

- 2 -

might welcome some plan to avoid immobilizing their funds. On the other hand such an operation would put a heavy load on the Caisse d'Amortizement obliging it to increase its bonds in circulation from around 26 to perhaps 34 billion franc.

I have been given to understand confidentially that since the recent visit of the French Minister of Communications to Belgrade, Yugoslavia has been seeking permission to float a loan on the market in Paris.

Arrangements are being made by Guaranty Trust to ship about one million dollars gold to New York from Belgium. It is said that Lazard is also active in this connection.

WILSON.

EA:LWW

RECEIVED
FEB 14 1944
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

Friday, March 19, 1937

Treasury issues turned downward shortly after the opening and at the close losses by Treasury bonds ran from 1 to 10/32nds. Treasury notes closed 1 to 6/32nds lower. Trading was orderly and the turnover was probably the smallest so far this week.

The Federal Reserve Bank of New York continued to make purchases on a down scale with no attempt being made to peg prices. At the close the market was still heavy and prices declined further in late trading.

Total purchases amounted to \$6,223,000. Of this amount, \$1,000,000 was for the account of the Government Life Insurance Fund and the balance, in accordance with the agreement between the Federal Reserve System and the Treasury, were shared equally. The Treasury share, \$2,611,000, was taken by the Postal Savings System.

March 19, 1937.

The Honorable,
The Attorney General,
Washington, D. C.

My dear Mr. Attorney General:

Before leaving Saturday, Secretary Morgenthau asked me to forward to you copies of any additional stories which might appear in the Chicago papers with regard to the situation there. I am accordingly enclosing copies of clippings from the Chicago Daily News of March 13, the Chicago Herald and Examiner of March 15, and the Tavern Weekly News (Illinois Edition) of March 18.

Sincerely,

HNG/mff

Commissioner.

BOOTLEG CHARGES IRK INNKEEPERS!

U. S. Attorney's Charges That Inns Are Bootleg Outlets Bring Protest

Kanne Repudiates Statement That Market Is "Flooded"

Chicago.—Local tavern owners were dismayed over the widespread publicity given last week to statements attributed to Assistant U. S. Attorney Daniel D. Glasser in which the Chicago market was characterized as one "flooded with illicit liquor as it was during prohibition."

Immediately following publication of these charges, hundreds of tavern owners, voiced their displeasure at the inference that bootleg liquor was being sold to the public through taverns and other retail liquor outlets. The statement was regarded as a discredit to the legitimate tavern owners which would undoubtedly undermine public confidence and result in loss of business.

Merchants Protest

"The statements appearing in the daily press," stated John Martin, president of the Innkeepers' Association of Illinois, "which were accredited to Assistant U. S. Attorney Glasser, are most unfortunate. The story carried no concrete facts and served no purpose other than to destroy public confidence in the tavern and package dealer.

"It seems to be a very small reward for the great amount of taxes which are presented to various governmental agencies by legitimate tavern owners.

"It is only reasonable and fair to demand further explanation of the statements of Glasser. If he has been misquoted Glasser should demand a retraction of the story. If he actually believes the Chicago market is flooded with bootleg liquor, this representative of the federal government should make known the facts he has at hand to warrant such charges."

Other tavern owners were no less reticent or vehement in their protests against Glasser's disparaging remarks.

Glasser is said to have told a reporter of the daily press that "the Chicago market today is no more aware of what he is getting when he orders a drink in a saloon than he was when he bought liquor revenue laws. The danger is a monkey."

It is also stated that

there have been sporadic cases where huge stills have operated in the metropolitan area, there is little evidence to show that the production of these illicit stills are reaching the public through the tavern, and other legitimate outlets.

Risk To Great

The small margin of profit attached to the sale of bootleg liquor in comparison with the risk involved has discouraged this practice. Authentic reports from the alcoholic tax unit recently revealed that over 40,000 retail liquor outlets in Illinois, Wisconsin and Indiana have been carefully examined by this agency and that the quantity of bootleg liquor found in these places was negligible. It is a known fact that tavern owners respect the efficiency of alcohol tax unit agents and have often complained of the severity and exactness of these federal agents.

"Capone Gang" Revived

The old Capone gang was brought into the limelight by Glasser who said that those members of the mob who are not in the penitentiaries are now "making millions" through the operation of huge stills with apparent immunity. These statements also came as a surprise to the local liquor field inasmuch as it has become well known that the remnants of the old Capone mob are said to have avoided entanglements with their chief nemesis, the "G" men, and to enter other fields such as hand trucks, slot machines and other "semi-legitimate" rackets. According to one police official, the Capone gang has decided the bootleg racket does not offer sufficient revenues to offset the risk of imprisonment and that only one or two of the lesser lights of this once powerful mob have turned to illicit liquor for a livelihood.

Climax To Life

The sensational charges were a climax to a reported rift between the Alcohol Tax Unit and U. S. Attorney Michael L. Igoe over the methods of enforcing liquor revenue laws. The dispute is said to have centered on the question whether Alcohol

Louis E. Kanne, Executive Director of the Illinois Wine & Spirits Institute, today issued a statement formally repudiating various statements appearing in our local

press concerning bootleg whiskey. Kanne stated that the licensed retail taverns and package stores, in rare instances dispose of bootleg liquor; that in the main, bootleg liquor is restricted to alcohol.

"Investigation of the industry by the Illinois Wine & Spirits Institute, during the past three years has shown that there has been very little bootlegging in retail outlets licensed by the government," he stated.

"The statement issued by the District Attorney's office that there is as much bootleg liquor sold in the State of Illinois as there is tax-paid liquor is misleading to the public at large," he went on. Kanne further stated that many representations were made in the press which were very harmful to the licensed retail industry, and that "unless factual information is presented misleading statements should not be printed".

"The State of Illinois collected during the year 1936, \$5,857,127.12, which represents a tax of 50 cents per gallon on distilled spirits — \$433,497.90 on wines over 14 per cent, which represents a tax of 25 cents per gallon; \$82,541.48 on wine 14 per cent or less, which represents a tax of 10 cents per gallon; and \$3,008,097.52 on beer, which represents a tax of two cents

Tax Unit agents spent too much time running down "small fry bootleggers and still attendants" rather than concentrating on the "big shots."

The feud existing between these two federal departments is said to be referred to Washington where final solution of the problems is expected after both sides have presented their arguments.

per gallon. In the year 1936 the State of Illinois received an income from taxes on Alcoholic Beverages the amount of \$9,381,054.02. Surely, so great an income could not be derived from the Alcoholic Beverage Industry by the State of Illinois, if 50 per cent of the merchandise sold were bootleg merchandise," Kanne concluded.

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New Threat of Gang Rule

CHICAGO, if the charges of Assistant United States District Attorney Glasser are true, is again being flooded by illicit liquor.

According to Attorney Glasser, as many illicit stills are in operation here as during the height of the prohibition era. Profits from these stills, he says, are running into millions of dollars and are accruing, he estimates, to the remnants of the old Capone gang.

E. C. Yellowley, local head of the alcohol tax unit, the alleged delinquencies of which are under investigation by a federal grand jury, discreetly refuses to comment on the matter.

It is hardly necessary to recall the evils brought on by the "noble experiment."

Prohibition created an almost universal disrespect

for law and for the law-enforcing agencies. Law enforcement was not, as it is now, backed by public opinion.

Many millions of dollars were diverted from the state and federal treasuries to the safe deposit vaults of the racketeers.

Worst of all, traffic in the poisonous moonshine led to the organization of vicious and all-powerful gangs and to the gang warfare which was for many years a disgrace to Chicago.

Chicago today is beginning to recover her fair reputation blackened by the gangsters.

Chicago looks to the federal government for PROTECTION against these gangsters.

Traffic in illicit liquor must be wiped out AT ONCE. Efforts to this end will have the unanimous support of the public.

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Immediately following publication of these charges, hundreds of tavern owners, voiced their displeasure at the inference that bootleg liquor was being sold to the public through taverns and other retail liquor outlets. The statement was regarded as a discredit to the legitimate tavern owners which would undoubtedly undermine public confidence and result in loss of business.

Martin Protest

"The statements appearing in the daily press," stated John Martin, president of the Innkeepers' Association of Illinois, "which were accredited to Assistant U. S. Attorney Glasser, are most unfortunate. The story carried no concrete facts and served no purpose other than to destroy public confidence in the tavern and package dealer."

"It seems to be a very small reward for the great amount of taxes which are presented to various governmental agencies by legitimate tavern owners."

"It is only reasonable and fair to demand further explanation of the statements of Glasser. If he has been misquoted Glasser should demand a retraction of the story. If he actually believes the Chicago market is flooded with bootleg liquor, this representative of the federal government should make known the facts he has at hand to warrant such charges."

Other tavern owners were no less reticent or vehement in their protests against Glasser's disparaging remarks.

Glasser is said to have told a reporter of the daily press that "the Chicagoan today is no more sure of what he is getting when he orders a drink in a saloon than he was when he bought one in a speakeasy."

All such is not denied, that

there have been sporadic cases where huge stills have operated in the metropolitan area, there is little evidence to show that the production of these illicit stills are reaching the public through the tavern, and other legitimate outlets.

Risk To Great

The small margin of profit attached to the sale of bootleg liquor in comparison with the risk involved has discouraged this practice. Authentic reports from the alcoholic tax unit recently revealed that over 40,000 retail liquor outlets in Illinois, Wisconsin and Indiana have been carefully examined by this agency and that the quantity of bootleg liquor found in these places was negligible. It is a known fact that tavern owners respect the efficiency of alcohol tax unit agents and have often complained of the severity and exactness of these federal agents.

"Capone Gang" Revived

The old Capone gang was brought into the limelight by Glasser who said that those members of the mob who are not in the penitentiaries are now "making millions" through the operation of huge stills with apparent immunity. These statements also came as a surprise to the local liquor field inasmuch as it has become well known that the remnants of the old Capone mob are said to have avoided entanglements with their chief nemesis, the "G" men, and to enter other fields such as handbooks, slot machines and other "semi-legitimate" rackets. According to one police official, the Capone gang has decided the bootleg racket does not offer sufficient revenue to offset the risk of imprisonment and that only one or two of the lesser lights of this once powerful mob have turned to illicit liquor for a livelihood.

Climas To Blame

The sensational charges were a climax to a reported rift between the Alcohol Tax Unit and U. S. Attorney Michael L. Igoe over the methods of enforcing liquor revenue laws. The Illinois is said to have pondered the question whether Al-

Louis E. Kanne, Executive Director of the Illinois Wine & Spirits Institute, today issued a statement formally repudiating various statements appearing in our local

press concerning bootleg whiskey. Kanne stated that the licensed retail taverns and package stores, in rare instances dispose of bootleg liquor; that in the main, bootleg liquor is restricted to alcohol.

"Investigation of the industry by the Illinois Wine & Spirits Institute, during the past three years has shown that there has been very little bootlegging in retail outlets licensed by the government," he stated.

"The statement issued by the District Attorney's office that there is as much bootleg liquor sold in the State of Illinois as there is tax-paid liquor is misleading to the public at large," he went on. Kanne further states that many representations were made in the press which were very harmful to the licensed retail industry, and that "unless factual information is presented misleading statements should not be printed."

"The State of Illinois collected during the year 1936, \$5,857,127.12, which represents a tax of 50 cents per gallon on distilled spirits — \$433,497.90 on wines over 14 per cent, which represents a tax of 25 cents per gallon; \$62,341.48 on wine 14 per cent or less, which represents a tax of 10 cents per gallon; and \$3,008,097.62 on beer, which represents a tax of two cents

Tax Unit agents spent too much time running down "small fry bootleggers and still attendants" rather than concentrating on the "big shots."

The feud existing between these two federal departments is said to be referred to Washington where final solution of the problems is expected after both sides have presented their arguments.

per gallon. In the year 1936 the State of Illinois received an income from taxes on Alcoholic Beverages the amount of \$9,381,054.67. Surely, so great an income would not be derived from the Alcoholic Beverage Industry by the State of Illinois, if 50 per cent of the merchandise sold were bootleg merchandise," Kanne concluded.

March 19, 1937
1:03 p.m.

Mrs. Klotz: Mr. Oliphant has his hat and coat on. Igoe and Keenan are waiting for him. Do you want to talk to him before he goes?

HM,Jr: He goes -- I go?

K: He go and I go.

HM,Jr: Sure. I'll talk to him.

K: All right.

Oliphant: Hello.

HM,Jr: Hello, Herman. Where are you going?

O: Going down to the Capitol to the Senate Restaurant to have luncheon with Igoe, Keenan and Helvering. We talked it over with Graves, and that's the way we're handling it.

HM,Jr: At the Senate Lunch Room.

O: Yes.

HM,Jr: Why don't you have it in the middle of Pennsylvania Avenue?

O: Well, that's the way Keenan wants to do it.

HM,Jr: Keenan?

O: He is in charge of the party.

HM,Jr: Well, have you seen his charges yet?

O: No.

HM,Jr: (Laughs)

O: No, I haven't anything to report to you.

HM,Jr: Well, if I may give a little advice --

O: Yes.

HM,Jr: The Treasury is terribly hurt to think that the Department of Justice would investigate us without first giving us the facts.

O: Yes.

HM,Jr: See?

O: Yes.

HM,Jr: Terribly injured.

O: Yes.

HM,Jr: They certainly can't understand it that they could do such a thing.

O: That I get.

HM,Jr: What?

O: I get it.

HM,Jr: See?

O: Yes

HM,Jr: And that's our attitude.

O: Yes

HM,Jr: Why don't they do it the way they do in New York or Baltimore?

O: That's right.

HM,Jr: It was terribly injured.

O: Yes.

HM,Jr: O.k.

O: I get it.

HM,Jr: All right, Herman.

O: I can report to you later if you're talking again.

HM,Jr: Well, I'm calling up after 4:00 o'clock.

O: All right.

HM,Jr: And if you want to talk to me, tell Mrs. Spangler, will you?

O: All right.

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HM,Jr: Hello.

O: Yes, I'll tell her.

HM,Jr: I mean -- I'm --

O: Unless it's important, I don't think I'll --

HM,Jr: I'm back of the front line trenches and I'm not going to try to tell you how to do it.

O: All right. Unless it's pretty important, I won't bother you.

HM,Jr: O.k. I'd rather leave it to you and I hope the rest of these days I'm here I can be a human being.

O: All right. I'll take care of it.

HM,Jr: O.k.

COPY

March 19, 1937

MEMORANDUM TO THE FILES:

Mr. Keenan was in conference with Mr. Helvering and me in my office this morning beginning at 9:00 o'clock. He stated that Mr. Igoe was to be in town during the day and wanted to talk to me before he saw Igoe. He, in effect, asked what we wanted immediately, and I said we wanted two things: (1) a full and complete written statement of all the charges and complaints which Mr. Igoe had to make about Treasury service in Chicago; and (2) the replacement of Mr. Glasser by an abler and stronger man to handle the Alcohol Tax cases.

He expressed full sympathy with these two requests, and from my office telephoned to the personnel man in Justice to find who Glasser's political sponsor was.

He called me about noon, asking me to join him and Igoe in the Senate restaurant for lunch. I met them there with Mr. Helvering, and the talk opened by Keenan stating tactfully, but in substance, the two foregoing things.

Most of the time was consumed by Igoe citing particular instances of three general complaints: (1) frequent failure of our men to secure search warrants; (2) the excessive amount of time consumed in the investigation of liquor cases by the Treasury; and (3) the failure of the Treasury to bring in a sufficient number of the "higher-ups" in the illegal liquor traffic.

I repeatedly stated that we were not there to discuss the details of particular instances, but to work out a general plan for removing the friction between the two branches of the Service, and the first step in any such plan was to secure Igoe's written statement of detailed charges and complaints.

Mr. Helvering and I gathered that Igoe did not consider Glasser one of his strong men, and intimated that the more important cases were put in other hands, such as those of Hall. Nothing was concluded with

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reference to Glasser, and little was said about him; but we parted with the understanding that Igoe would submit all his charges and complaints in writing.

I wrote the attached confirmation memorandum to Mr. Keenan.

(Initialed) H. O.

Attachment

COPY

March 19, 1937

My dear Mr. Keenan:

In addition to the pleasant lunch with you today, I appreciate the opportunity you afforded to discuss with you and Mr. Igoe the Chicago situation, particularly in relation to Alcohol Tax cases.

After you left, Mr. Helvering's and my talk with Mr. Igoe continued along the same lines, and it is our understanding that Mr. Igoe has undertaken to transmit to the Department of Justice a complete and detailed statement of all the things in connection with Treasury personnel and Treasury operation in Chicago with which he is or has been dissatisfied. As soon as these specifications are received, they will be subjected to immediate examination.

Sincerely yours,

(Signed) Herman Oliphant

Hon. Joseph B. Keenan
Department of Justice
Washington, D. C.

CC: Mr. Guy Helvering, Bur. of Int. Rev.
Mr. Harold Graves, Treasury
Mr. T. A. Manning, Jr., Treasury.

HO: von 3/19/37

TREASURY DEPARTMENT

dup - 279

INTER OFFICE COMMUNICATION

DATE March 19, 1937

TO The Secretary
FROM Miss Lonigan

Mrs. Guy spent Tuesday, Wednesday, and Thursday in Washington starting the organization of a self-help cooperative.

On Tuesday morning Mr. Elwood Street, District Commissioner of Public Welfare, held two conferences in his office. At the first Mrs. Guy was introduced to the heads of the principal community welfare agencies in Washington - Family Service, Community Chest, YMCA, Salvation Army, and the like. At the second she was introduced to the technical people in charge of the various divisions of the District welfare departments - health, child welfare, relief, and the like.

These meetings were excellently managed by Mr. Street. In two hours Mrs. Guy had established first contact with practically everyone of importance in the welfare field in the District. The response was extremely favorable.

Mrs. Guy suggested that all the people present go down to Richmond to see the Exchange in action. A large party is going on Wednesday of next week.

Mr. Street has also invited the Secretary of the Washington Taxpayers' Association to come along. Mr. Street said he seemed very much interested.

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Mrs. Guy spent most of the three days visiting the people whom she had met at the conferences. She found that the need in Washington was very great, and that the social agencies here are not pulling together. She thought the Exchange would be worthwhile, if it started the social agencies working together on their common problems.

The immediate problem is space in which to begin operations. Mrs. Guy is going to try to get an abandoned school building, since space is so scarce in Washington.

Mrs. Guy also saw Miss Nannie Burroughs, Director of the Colored Self-Help Exchange. She will help Miss Burroughs to get a broom shop established here like the one in Richmond. Miss Burroughs is planning to raise her own broom corn on the farms here.

Mrs. Guy will return to Washington on Monday.

She is planning to call together an organizing committee to include about ten people, to meet the week after next.

I am hoping to see Mr. Ihlder again about the housing situation in Washington, and the chances for bartering workers' services for rent.

OFFICE CORRESPONDENCE

DATE March 19, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnobeBANK OF ENGLAND.

I called Mr. Bolton at 11:19 in connection with our order from the Banco Central de la Republica Argentina to sell at best £2,000,000 value March 25, good until March 20 inclusive. I asked whether he had been able to do more than the \$5,000,000 mentioned in his cable of this morning on his order from Buenos Aires to purchase \$20,000,000. Bolton replied his purchases now totaled \$8,000,000. I explained that we had done so far about £300,000 at 4.88 5/8 without depressing the rate but that it had taken seven trades to do this amount. Bearing in mind that the order was a best order we would have to go ahead and try and execute the balance with the probable result that the rate would weaken quite a little. I mentioned that last time we had a similar order, we were in a position to do it against the Bank of England's gold order but that to do so today against their selling price of 142s 6 1/2d, the sterling rate in terms of the dollar would have to go down to 4.8785. This, I explained, could hardly be desirable from their or from our viewpoint. Bolton asked whether it would help us at all if he made me a bid for sterling during the next hour; I answered "Decidedly." I suggested that the same purpose would of course be attained if he could give me a special gold price to take care of this operation. Bolton replied he would see what he could do.

LWK:ENC