

DIARY

Book 62

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HMJr tells FDR, Eccles and he will have plan for him very soon; due to Eccles articles, spotlight has been on Government spending; if combined program fails, then spotlight will be exclusively on him (FDR); begs FDR to make some statement at press conference; FDR says he will announce that he is asking Bell for revision of budget picture, which will be included in message requesting relief money - 4/2/37.....

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April 1, 1937.
10:18 a.m.

H.M.Jr: Hello
O: Chairman Eccles
H.M. Jr: Hello
O: Go ahead
H.M.Jr: Hello
Eccles: Hello
H.M.Jr: Marriner.
E: Yes sir.
H.M.Jr: Jake Viner is here at my desk.
E: Yes.
H.M.Jr: He could come over now if you could see him.
E: Well I can't for a little while. Let's see - ah -
H.M.Jr: Well give him a time - 11 o'clock?
E: Yes, how will that be?
H.M.Jr: Eleven?
E: Yes, we're to - over at the Treasury.
H.M.Jr: Well he'll come to see you.
E: Oh, all right then, that will be fine.
H.M.Jr: No, he'll come to see you.
E: That's fine.
H.M.Jr: At - at 11 o'clock.
E: I'd like to get - I'd like to have Goldenweiser
in too.
H.M.Jr: Well anybody that you want - he'll come over there.

E: Well that will be fine; 11 o'clock.

H.M.Jr: 11 o'clock.

E: Ah - thank you.

H.M.Jr: All right, goodbye.

E: Goodbye.

April 1, 1937.
10:25 a.m.

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Burgess: Hello

H.M.Jr: Hello Burgess.

B: Oh hello sir.

H.M.Jr: Yes.

B: Well I just wanted to keep in touch with you.

H.M.Jr: Yes.

B: You've seen the market this morning I suppose.

H.M.Jr: Well Harris was just telling me about it.

B: Yes, there's nothing very cheerful to report.

H.M.Jr: Yes.

B: There - there was some nibbling from insurance companies yesterday from one or two of them.....

H.M.Jr: Yes.

B:but they're very few buyers in the market. The buyers have all gone into their bomb-proof storm shelters.....

H.M.Jr: Ah-ha.

B:and - ah - they may come in before the day's over - I don't know.

H.M.Jr: Ah-ha.

B: They - there are blocks around that are available at prices so that it would take an awful lot of buying to do much in the market; we'll just - ah - just try to keep it orderly.....

H.M.Jr: Yes.

B:by buying here and there if I see any bids available unless you have any other suggestions.

H.M.Jr: No I haven't got any - ah - ah - I mean each day goes on; its becoming more obvious that the - that - that what we're following - not on the day to day but the policy which is laid down isn't going to do the trick but I'm not prepared to say what change should be made.

B: Well I think its very difficult. I've been very hopeful all along; perhaps thats a little too optimistic; that the thing would blow itself out.....

H.M.Jr; Yes.

B:but the darndest things keep happening here. These - the talk about inflation.....

H.M.Jr: Yes.

B:and about the Treasury Budget position.....

H.M.Jr: Yes.

B:and so on which keeps stirring people up again.

H.M.Jr: Yes, we got - if you notice the Wall Street Journal or the Tribune corrected that story that we were out of funds.

B: Yes - yes.

H.M.Jr: Yes.

B: Well I talked around with here yesterday and I straightened him out.

H.M.Jr: Well I talked to Duffield yesterday.

B: Well that's well, yes, I'm glad you did.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: Well -

B: Well I - I still think its crazy and it will blow itself out but just when I don't know.

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H.M.Jr: Well, as I said, I talked to Harrison yesterday on the day to day I might say, "Well I'd buy a little more or a little less from hour to hour". I - I told them whether they buy five, seven or ten million on a day to day it makes very little difference.

B: I think it makes almost no difference.

H.M.Jr: But its - we're - we're on a certain course; whether that course should be changed I'm not prepared to say yet.

B: Yes, I agree. I feel exactly as you do.

H.M.Jr: But I - I am becoming each day more skeptical that the course that has been charted.....

B: Yes.

H.M.Jr:that the thing will correct itself as long as we follow that course.

B: Yes, well now I think that's a real question.

H.M.Jr: What?

B: I think that's a real question.

H.M.Jr: But Eccles asked me last night did I have any suggestions to make and I said not yet.

B: Yes - yes, well I think you're taking exactly the right course. I wouldn't be prepared to make any recommendation to-day.

H.M.Jr: How about this gossip that the banks converted a lot of their April notes into the 2-1/2's hoping to make a profit and then when they couldn't they got panicky and sold them?

B: Oh I don't think it was any more so than usual. Of course they always do that.

H.M.Jr: Yes, and they got stuck this time.

B: Yes, there was some selling of that sort; there always is.....

H.M.Jr: Yes.

B:and their had some.

H.M.Jr: Yes.

B : Ah - but....

H.M.Jr: Well I'm - I'm glad our refunding is behind us.

B: Thank God for that, yes.

H.M.Jr: That's right.

B: (Laughs)

H.M.Jr: All right, Burgess, if anything happens call me.

B: I will.

H.M.Jr: All right.

B: Right.

April 1, 1937.
12:07 p.m.

H.M.Jr: Harold Graves please.

O: Right.

H.M.Jr: Hello

O: Mr. Graves.

H.M.Jr: Harold.

Graves: Yes sir.

H.M.Jr: Mr. McBride, Mr. Hull's Secretary, just called Mrs. Klotz to say that the reason they had not asked us to appoint a man to go to Geneva on the Narcotic Conference was because I had not - said that I would agree to what you and Hornbeck had gotten together on.

Graves: Oh yes. Would you like for me to send some.....

H.M.Jr: What?

G: Would you like for me to prepare a letter for you to sign?

H.M.Jr: Well they say its on my desk; I've got nothing on my desk.

G: No, nothing was ever submitted for you to sign. I suggest that you let me prepare a letter for you to sign to Mr. Hull saying that you do approve this Hornbeck arrangement.

H.M.Jr: Well if you can get it in to me I'll sign it.

G: Ah - I certainly will.

H.M.Jr: Call up McBride and explain to him will you? What you are doing?

G: Yes.

H.M.Jr: McBride is Hull's Secretary.

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G: I'll do it.

H.M.Jr: Now the responsibility is yours.

G: All right I'll see that the letter is prepared for you and I'll call McBride.

H.M.Jr: Right.

G: Yes sir.

April 1, 1937.
12:38 p.m.

H.M.Jr: Hello.

O: Dr. Burgess.

H.M.Jr: Hello

O: Go ahead.

Burgess: Hello

H.M.Jr: Hello Burgess.

B: Oh, hello Henry.

H.M.Jr: How are things going?

B: Not very well; it's slipping. Ah - keeps on slipping a little bit.

H.M.Jr: What?

B: It keeps on slipping a little bit.

H.M.Jr: Ah-ha.

B: I guess it's off a half to three quarters of a point.

H.M.Jr: Yes. Have you done anything to-day?

B: We've done about seven million.

H.M.Jr: Seven million.

B: We - we've got bids in on the board; we're picking - picking off the most bonds as they come along.

H.M.Jr: "id you see my statement on the Dow Jones ticker?

B: Yes.

H.M.Jr: That didn't hurt any, did it?

B: Well I don't know whether it did or not.

H.M.Jr: Well I should think it would have helped.

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B: It's very hard to (laughs) - very hard to say. (Laughs)

H.M.Jr: I made it to help.

B: The market doesn't give much indication of having been helped by anything this morning. (Laughs)

H.M.Jr: I see. All right.

B: But I - I think you told just the truth and that's a pretty good rule.

H.M.Jr: That's right.

B: It paid to doubt (laughs) I don't know any other better rule.

H.M.Jr: That's right. All right.

B: All right, Mr. Secretary.

H.M.Jr: Goodbye.

B: Goodbye.

April 1, 1937

Excerpt from Mr. Magill's memorandum to the Secretary entitled, "Memorandum of the Day's Activities for April 1st":

1. Railroad Retirement Legislation

Attached hereto is a memorandum outlining my conference this morning with Senator Harrison and Messrs. George Harrison and Pelley. The two men last named are to consult their respective groups and advise Senator Harrison of the result. In the meantime there is no action for us to take.

COPY

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April 1, 1937.

TO The Secretary
FROM Mr. Magill
Subject: Railroad Retirement Legislation

Senator Harrison called me about 10:00 A.M. and asked that Mr. Bell and I go to his office to discuss the proposed compromises with him, Mr. George Harrison representing the Railroad Brotherhoods and Mr. John Pelley representing the Railroads.

We outlined to the conference the plan which you proposed yesterday. Mr. Pelley seemed to have two objections: (1) That it would cost the railroads about \$50,000,000 and, (2) that it would involve agreeing to the constitutionality of the present Tax Law. I told him that as a matter of fact the railroads would get a very good break, since the Government would immediately take over a liability for \$200,000,000 under the present private pension plans and that our Actuaries estimate that the deficit under the proposed agreement would amount to around \$1,000,000,000.

After discussion back and forth Mr. Pelley agreed to present the proposal to his group and Mr. George Harrison would present it to his. Mr. George Harrison seemed to have no objection to the proposal but stated again that he understood from a conference he had with the President that the President approved the agreement as it stood. Senator Harrison stated that in the event the railroads would not agree to your proposal we might have to have another conference and perhaps a conference with the President.

Senator Harrison was very friendly but the impression I get is that he would be entirely willing to go along with the plan proposed by the Railroads and Brotherhoods. He stated that the unfortunate part of the agreement was that the Treasury had not been called in and that everyone should have realized the jealousies that exist among the different Departments. I said that so far as the Treasury is concerned we did not desire to oppose the agreement, but in the present state of the budget we could not agree to an immediate loss of around \$150,000,000 and a prospective loss of \$1,000,000,000.

(Initialed) R. M.

April 1, 1937

Harry Hopkins went home with me last night. What he wanted to tell me was that he had prepared a letter to the President outlining a plan that the Treasury, the Hopkins organization, Miss Perkins and Agriculture should get together and appoint a group of experts headed up by the Treasury experts to study non-monetary methods of controlling inflation and that I should be chairman of this committee.

Hopkins asked me what I thought of the idea. I told him that that was the purpose of my calling the meeting Thursday night and that I had just this in mind. He pretended that he was very much surprised to learn that this was my purpose and was it not interesting to think that he and I had the same idea? Of course, from what I picked up here and there, he knew that this thing was coming and was just trying to "jump the gun" and get the credit for himself.

He told me that in talking with the President yesterday the President said as far as money for next year went, it was going to be \$1,500,000,000 and that he did not want to discuss money for relief for next year, but he would be willing to discuss the relief problem.

In the evening Feis told me something about another group which is making a study on inflation, etc., and I have not got that story straight, but it dovetails in with what Wallace told me and I gather that there has been another group talking about getting together which includes the State Department and the Federal Reserve and evidently unwittingly I got the jump on the whole crowd. Feis has given me a memorandum, which I have not yet read, which is supposed to cover this subject.

I do not care which group does it as long as we get the results, namely: that we balance the budget now.

It is gradually becoming clearer to me that just as long as the Federal Reserve follows the policy of selling short-term securities in order to get money with which to buy bonds, they will continue to drive up short-term interest rates which seems to have the effect of also increasing long-term interest rates and in this manner push down the long-term bond market. I am beginning to believe that the only way that they can stop

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this constant fall in the bond market is for them to stop this process and begin open market operations, which would mean that they would increase their portfolio. This they have refused to do up to date.

* * * * *

HM, Jr. called the President at 9:30. He said to the President, "Harrison and Coughton came down here last night and we had an hour and a half together on the Railroad Retirement thing. I made a suggestion, which they liked very much, and that was that instead of putting the law into effect January 1, that we make it July 1, 1937, and in that way the Treasury would gain about \$150,000,000 in this fiscal year." The Secretary then pointed out to the President that railroad union people retiring now would receive greater allowances under the proposed compromise since the present retiring act is more generous than the proposed act.

"Harrison and Coughton liked it," the Secretary told the President, "and Harrison made the suggestion that instead of going from 7% to 5% that they would let the 7% stand for one year and then knock off 1/4% each year until the 5% is reached. Harrison took the responsibility of seeing the railroad owners and the unions to see what he can do."

HM, Jr. pointed out to the President that when the unions thought they had the agreement, they immediately announced that they would strike for a 20% increase in wages.

"Bonds went down a lot and the Federal Reserve are going to continue to support the market," the Secretary reported to the President. "Eccles calls me a couple of times a day and George Harrison calls me. They both ask for suggestions, but I told them that I had no suggestions to make."

"Tonight Frances Perkins and Harry Hopkins are coming over to my house together with a group of others to talk about what I call 'selective spending' and to see if we can work out something and then we will ask to see you."

TO:

Mrs. Klutz

15

This is the regular
monthly report (for March)
regarding alcohol smuggling
investigations on the Eastern
seaboard.

The Secretary asked to
have these reports furnished
him.

From: MR. GRAVES

4/10

OFFICE OF
ASSISTANT DEPUTY COMMISSIONER
ALCOHOL TAX UNIT

16

April 6, 1937

Mr. Graves:

There is inclosed, for your information, a report dated April 1, covering the general smuggling situation along the North Atlantic coast during March, 1937.


Dwight E. Avis,
Assistant Deputy Commissioner,
Enforcement.

April 1, 1937

SECRET & CONFIDENTIAL

Deputy Commissioner,
Alcohol Tax Unit,
Washington, D. C.

Attention: AT:EX:HL

The following report is submitted covering the general smuggling situation along the North Atlantic coast during the month of March, 1937.

STATUS OF CASES

Case No. 3237-M

This case is set for trial on May 10, 1937, in Camden, New Jersey.

Case No. 3855-M

This case involves the seizure of 329 cases of alcohol at Keansburg, New Jersey. During the month a new indictment was returned in the District of New Jersey against Pierre Leveque, John Saunders, Fred Wise, Louis Johannes, Henry Baker and James Murry on a charge of conspiracy and other counts.

Case No. 375-S

There has been no change in the status of this case. The removal hearing of Bert Erickson has been postponed from time to time and will come up for decision before the United States Commissioner on April 6.

Case No. 377-S

Continuous effort has been made during the month to apprehend the defendants Levin, Gerke and Brown. The New Jersey fugitive squad, consisting of two investigators, has been spending practically its entire time in trying to effect the apprehension of these fugitives. We have had telephones under supervision, and the New York Police Department is aiding in this work and has made two or three searches, one at the home of Mrs. Gerke. It is believed that Gerke is in Greater New York and that Levin is somewhere in or around Miami. One report is that Levin moved to Hot Springs, Arkansas. The matter has been taken up with the District Supervisor at Kansas City for the purpose of having an investigation made there. Another report is that he went into hiding some thirty miles from Miami on information from the Newark gang which patronizes the Dempsey-Vanderbilt Hotel in Miami that he is "hot". It is believed that Henry Gerke will surrender in the

near future. His wife is ill and the Collector of Internal Revenue for the Third District of New York has prepared a distraint warrant to be served at Gerke's apartment house at 921 St. Nicholas Ave., New York City.

It is believed that the defendant Brown is aboard a vessel engaged in the banana business, and we have sifted the vessels on which he would probably be down to three. One of them is the Norwegian Steamship BODO which discharged a cargo of alcohol at St. Pierre, the captain working with the American government in refusing to tranship on the high seas.

Our star witness and co-defendant Stanely Collins is still in jail at Trenton, N.J., having been confined there for almost nine months. It is becoming necessary for us to get him out of jail through some method. The District Attorney insists on some kind of bond being made. It is believed by all concerned that Collins will voluntarily return to the United States and testify in this case. However, it would be perfectly easy for him to double-cross us. Anticipating that he was getting restless and might cause a complaint to be made to the British Consul, I visited the British Consul in New York yesterday and talked to him about Collins, and feel that should any complaint be registered with him, the matter will be handled in the proper manner.

Case No. 378-S

This case covers all activity in smuggling at this time. All activity is centered off the New England coast. There is no doubt that the source of supply is St. Pierre. In the report for the month of December, 1936, it was reported that the KAYEMARIE discharged a cargo of alcohol off Cape Cod. This decision was arrived at through a series of circumstances and radio transmission.

During the month of March, information was obtained through a former member of the crew of the KAYEMARIE that they did discharge 1300 cases of alcohol near Wellfleet, Mass. in December. It has been definitely determined that John Magnus is heading the organization which is operating at this time.

On March 15 the KAYEMARIE returned to a position off the New England coast and communicated with the land station by radio. On March 15 this vessel was picked up and trailed by the Coast Guard, and was kept under trail continuously until 5:00 P.M. on March 27 when it was lost near St. Pierre due to the vessel going over shoals and the Coast Guard vessels could not follow. It is believed that this vessel made contact with another vessel and was refueled and provisioned. On March 31 this vessel was again heard on the air, and today at 9:00 A.M. a bearing was obtained showing that the KAYEMARIE was 33 miles SSW of Seal Island on its way back off the New England coast. Every effort has been made to locate the land station without success due to the fact that it is portable and never broadcasts from the same position. It is possible that during the coming operation of the KAYEMARIE we will be able to find the portable station and it is our intention to take the operator into custody and try to make a deal with him to bring the vessel into American waters, and if unsuccessful in this we will bring it in ourselves, using his set.

There has been radio communication with a station which used the call letters RO in January. On March 26 this station was heard again and continued to communicate with the land station up to Sunday, March 28. The radio communications indicate that it successfully discharged its cargo, either to a coastwise vessel or a fishing vessel about 36 miles off Cape Cod, and it is believed that this ship was directed by a shore station in the vicinity of New York using the call letters WP, and that the time consumed in transferring was four hours. The bearings indicate that the vessel drifted approximately four to five miles while engaged in the transfer, this position being about 10 miles off the regular shipping lane ordinarily used by coastwise vessels.

We are just in receipt of uncorroborated information that a trawler and a schooner have left St. Pierre with alcohol. This report and others are being investigated from every possible angle. During the past two months there have been reports from underworld sources to the effect that a gang in the vicinity of Boston, which is unidentified, is attempting to sell alcohol in New York; that there were some 25,000 cases of alcohol in St. Pierre and that they were bringing over 40,000 additional cases. On the last visit of the Boston representative of the gang, he was suddenly recalled to Boston and left word that they were having difficulty with the foreign end in getting the alcohol and could not promise a definite date of delivery. This story in itself would ordinarily not mean anything, but immediately thereafter reports were received through the diplomatic service that W. A. Shaw was trying to charter another boat from Klyberg. This report came from Antwerp. At the same time the Vice-Counsel at Hamburg reported that Morase, who is the alcohol dealer in St. Pierre, had made inquiries of the German Government as to the probability of being able to obtain clearance on 40,000 cases of alcohol from Hamburg. The German Government refused clearance unless certain rules and regulations were complied with, which evidently stopped further action along these lines for the time being at least. This information was received immediately after the report from the underworld in New York that trouble was being experienced on the foreign end. It is reasonable to believe that Morase would not replenish the supply of alcohol in St. Pierre if he did not see his way clear to dispose of it at a profit.

Information has been obtained from certain records of W. A. Shaw which gives a clear picture of the method used in bringing alcohol from Belgium and transshipping on the high seas, particularly by the ANDERS, JAN, REIDUN AND BODO. Bill Miller was the contact man with parties in the United States, and went to Belgium, procured the alcohol and supervised its loading to these vessels. Shaw procured the vessels and furnished the Supercargo. Shaw would then give the captains of various rum vessels orders for quantities of alcohol which would be delivered to the captain by the Supercargo upon receipt of the order from Shaw. Shaw provided transportation for this alcohol to a point off St. Pierre at the rate of 75¢ per case.

Immediately after the BODO refused to break cargo on the high seas and discharged its cargo in St. Pierre, this alcohol began to filter out, upon

the orders of Shaw to Paturel and Pitts who were operating the so-called American House, the company which took over this alcohol and paid certain fines due. This alcohol was to be released by Paturel only upon the orders of W. A. Shaw. Shaw apparently is very anxious to have the indictment, which is pending against him in South Carolina, dismissed and has agreed to furnish all the information in his possession. However, I am somewhat in doubt as to whether Shaw will furnish the type of information which would be of benefit to the Government, as he may claim that he was merely the transportation agent. Therefore, I am not anxious to go to Canada to confer with him, believing that later on he will become more anxious and perhaps give more information than if I visited at this time.

About a week ago the Collector of Customs at New York received a radiogram from a merchant in St. Martins to the effect that the STANDARD COASTER and the REO II had left St. Martins with 6000 kegs of rum which would be transhipped off the Jersey coast. Little credence is given to this report because it is not profitable to smuggle rum into this country. An investigation was made recently at the offices of large importers and distributors of foreign liquors, and information obtained indicates that rum is a very poor seller and no money can be made by smuggling it into the United States. This morning these two vessels were heard in communication with their home station in Nova Scotia and it is believed that they are again proceeding off the Canadian shore and will discharge their cargoes in Canada, where rum is a favorite drink.

Since March 28, 1937, at which time indications were that a load of alcohol was successfully discharged, we have been trying to obtain information which will support this contention but so far have been unable to locate any smuggled alcohol. Arrangements are now being made to effect the purchase of smuggled alcohol, provided a source of supply can be found, and if the purchase can be made we will attempt to work back to the land headquarters from the distributor.

W. E. Dunigan
Assistant Supervisor, Enf.

April 1, 1937.

My dear Mr. Secretary:

Mr. Graves has handed me the attached memorandum, entitled "Arrangement for Facilitating Cooperation Between the State Department and the Treasury Department for the Purpose of Discharging the International Obligations of the United States Concerning the Traffic in Narcotic Drugs," which represents the understanding reached between Dr. Hornbeck and himself with reference to the handling of the international aspects of narcotics matters by the State and Treasury Departments.

I have examined this memorandum and find it to be entirely satisfactory so far as this Department is concerned.

Sincerely,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury.

The Honorable

Cordell Hull

Secretary of State.

HNG/aff

March 25, 1937.

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ARRANGEMENT FOR FACILITATING COOPERATION BETWEEN
THE STATE DEPARTMENT AND THE TREASURY DEPARTMENT FOR THE PURPOSE
OF DISCHARGING THE INTERNATIONAL OBLIGATIONS OF
THE UNITED STATES CONCERNING THE TRAFFIC IN NARCOTIC DRUGS.

1. The Bureau of Narcotics will remain the Special Administration of the United States under the Narcotics Limitation Convention of 1931.
2. The Bureau of Narcotics will continue to be the agency in the United States responsible for the direct exchange with corresponding foreign administrations of information and evidence with reference to the illicit traffic in narcotic drugs. This will not, however, be considered as excluding the exchange of information and evidence directly between Treasury representatives abroad and the police and other governmental authorities of foreign countries, as outlined in paragraph 5.
3. The Bureau of Narcotics will continue to prepare the annual report required of the American Government under the terms of the Narcotics Limitation Convention of 1931, as well as other formal reports relating to narcotics which may be required under treaty obligation or other international agreement to be submitted by, or on behalf of, the American Government to any foreign nation or nations. It is understood that before any such formal reports (not including routine reports of seizures or other reports of the classification referred to in paragraph 2) are put in final form, the preliminary drafts will be submitted for review and comment by the State Department.
4. With reference to the present arrangements whereunder all contacts by the State Department with the Treasury Department on the subject

of narcotics are required to be made through the office of Assistant Secretary Taylor, these arrangements will be understood hereafter to apply only to matters of policy; and officers of the State Department will be at liberty, in their discretion, to make direct informal contact (1) with appropriate officers of Customs in any case where they may desire information with regard to the smuggling of drugs into the United States, (2) with appropriate officers of the Bureau of Narcotics in any case where they may desire information with regard to any aspect of the narcotics traffic other than the smuggling of drugs into the United States, and (3) with appropriate officers of the Public Health Service in any case where they may desire information regarding any matter relating to narcotics which comes within the jurisdiction of that Service.

5. The Treasury Department will be free to station representatives in such foreign countries as it may consider to be important sources of supply for drug-smuggling operations directed at the United States, (1) for the purpose of conducting investigations with regard to such smuggling operations with the help of, and through contacts with, the appropriate police and other governmental authorities of such countries, or (2) for the purpose of effectuating with governmental authorities informal exchanges of information with regard to the smuggling of narcotics, or (3) for both these purposes. The Treasury representatives will usually, though not always, be officers of Customs, and when permanently stationed abroad will be known as Treasury Attaches or as Treasury Representatives. It is understood that when the Treasury Department wishes to send representatives abroad for the purposes indicated, the Department of State

shall be consulted and, through the Department of State, the assent of such other governments as may be concerned shall be sought.

6. The State Department will authorize its diplomatic and consular representatives in Europe and in the Far East to transmit to the Treasury representatives at Paris and at Shanghai, respectively, in the form of strictly confidential memoranda, all information of immediate importance with relation to the smuggling of narcotic drugs into the United States which such diplomatic and consular officers send by telegraph or mail to the Department of State, it being understood that under no circumstances will the source from which such information has reached Treasury representatives be disclosed. The State Department will also instruct its diplomatic and consular representatives in countries where Treasury representatives are stationed to extend to said Treasury representatives such assistance and cooperation as those representatives may properly request in the conduct of drug-smuggling investigations abroad.

April 1, 1937.
3:03 p.m.

Eccles: Hello - Hello Henry.

H.M.Jr: Marriner.

E: Hello

H.M.Jr: Marriner.

E: Yes.

H.M.Jr: I wondered if, by an chance, you're free tonight.

E: Yes sir.

H.M.Jr: Good, well now I'll tell you what. I'm getting some people together to talk about what I call "Selective Spending".

E: Yes.

H.M.Jr: And there's Hopkins; there's Perkins and so forth and so on, see?

E: Yes.

H.M.Jr: And - well I just invited Hopkins and Miss Perkins for supper and I wonder if you could come.

E: Ah - yes, I haven't any engagement. That's at what time?

H.M.Jr: My house at 7:30.

E: Yes.

H.M.Jr: And then if you'd like Goldenweiser to come afterwards why I'd be delighted.

E: All right. That - that won't be necessary to - ah -

H.M.Jr: Prepare?

E: To prepare at all.

H.M.Jr: We've got a paper which we're going to read and we'll let you fellows tear it apart.

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E: Yes, but I mean I can go right from the office here.
I

H.M.Jr: Oh, yes. You don't - don't need to dress.

E: I - I was

H.M.Jr: At 7:30 and tell Goldenweiser 8:30, see?

E: Yes. Well now, I'd like to see you this afternoon,
but I don't know. I suppose you're pretty busy.
I'd like to discuss this - this bond market.

H.M.Jr: Well I told - I told Jake I'd see him at 4:30. You
want to come then?

E: Yes.

H.M.Jr: 4:30?

E: 4:30.

H.M.Jr: Okey-doke.

E: So I'll be over to your office.

H.M.Jr: Yes, and will you tell - I expect you for supper at
7:30 -

E: Fine.

H.M.Jr: - and Goldenweiser at 8:30. We're going to read a
paper and we'll let you fellows all tear it apart.

E: O.K.

H.M.Jr: See?

E: All right. That's fine.

H.M.Jr: Thank you.

E: Goodbye.

RE: BOND MARKET - INTEREST RATE SITUATION

April 1, 1937
4:15 P.M.

Present: Mrs Klotz Dr. Viner
 Mr. Haas Mr. Eccles
 Mr. White Dr. Goldenweiser
 Mr. Seltzer
 Mr. Murphy
 Mr. Gaston
 Mr. Taylor

Haas: We feel that preferably - this is the ideal we're talking about: Number One, that the action should be jointly between the Treasury and Reserve Board; that it should be clearly indicated in the press statement, or whatever means is used to make it public, that it is done for the purpose of easing the money market situation, not for the purpose of securing funds with which to buy Government bonds or any implication that it is done in an attempt to peg the Government bond market.

Then as to the devices which we think are preferable to use, we think a combination probably would be best. "A" under that - that you would release inactive gold and the gold in the working balance; the two together now amount to about 520 million. The boys thought it would probably be better to leave a little bit in the inactive account just to keep it on the sheet, but to put out either four or five hundred million dollars of the 520 million. Put out 500, you've got 20 left; put out 400, 120 left. They felt you should do it in a substantial amount to show that you're - they feel that is necessary; that you can't just nibble at it.

In conjunction with that, the Federal Reserve Board should say.....

H.M.Jr: (To Kieley) I'm sorry, his appointment was for four. I'm very sorry, he'll have to - I can't see him now. I've kept 15 minutes for him. You'll have to make my apologies. I sat here for 15 minutes waiting.

Kieley: Make a date for him?

H.M.Jr: You'll just have to handle it. I can't do it the rest of this week. I'm very sorry, - - Man walks in here 15 minutes late.

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Haas: Where was I?

White: At the amount of gold. I don't know - said four or five hundred million.

Haas: At least the boys felt better to leave some in the inactive account just to leave it on the sheet.

In addition to releasing either 500 or 400 million, they felt that the new importations of gold should not be sterilized for the time being.

H.M.Jr: Well, may I just interrupt you?

Haas: I'm about through.

H.M.Jr: Well, I'll wait until you get through.

Haas: I'm through.

White: How about the Federal Reserve Board?

Haas: Oh, the Federal Reserve ought to - the part which the Federal Reserve Board would take - be also a part of this joint statement of action taken. They should express their intention of conducting open market operations, not limited to bills or bonds but just open, so they could buy bills or bonds.

I think it is important that the action should not be just confined to the open market operations of the Federal Reserve Board, because there is a general feeling now - a misunderstanding, an irrational feeling that the buying by the Federal Reserve Board is sort of a pegging operation; there is not a general understanding that that increases excess reserves of the banks.

But that operation - the intention to perform that operation if necessary, along with the release of this gold, is the best solution we have.

H.M.Jr: Well, what you think is it should be two things.

Haas: A combination.

H.M.Jr: A combination of open market operation and release both.

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Haas: That's right.

H.M.Jr: Now, for the moment, where we take that gold from isn't important, is it?

White: I think so.

Seltzer: You mean from the working balance or the inactive.

Haas: I think it is.

Seltzer: Probably have to raid both of them to make a sizeable amount.

Murphy: There's only 332 million in the inactive account, and four or five hundred million is the amount that it seems would be necessary to make a sufficient showing.

H.M.Jr: How much?

Murphy: Four to five hundred million, to make a sufficiently....

H.M.Jr: You mean you don't feel it should be done 50 million at a time.

Seltzer: Oh, absolutely not. I think...

Haas: You might lose the whole effect.

White: The effect we want to achieve is the psychological one, not only the actual.

H.M.Jr: 341 million today inactive.

White: We feel that something ought to be left in there to leave the fund prepared....

H.M.Jr: 186 plus 341 is 527.

Haas: That's right. They might suggest just taking the 180 out of the working balance.

H.M.Jr: Oh.

Haas: That doesn't have the psychological effect; the amount isn't large enough.

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- H.M.Jr: Of course, the thing that I don't like about this thing - I don't like to be hurried so on this thing. I'd like to do this thing as of Monday morning. I mean I hate to have Eccles come in here and say, "Do this tonight, effective tomorrow morning." It kind of rushes me. I think they rushed me too much on the other business. They come in one night and say, "We're going to raise the requirements, and give us an answer tomorrow." We didn't have a chance to.... You remember when I went over to the White House. They didn't give me a chance.
- White: Well, I don't know that we're in agreement there, but I feel personally on that that Monday or Saturday would be all right.
- H.M.Jr: Well, I think it's a much more statesmanlike thing to do.
- White: It's a little less panicky. Even if it goes down, it will snap back as a consequence of that.
- Haas: There may be something in that. You don't want to give them the position that you are pushed against the wall.
- H.M.Jr: I mean this idea of doing a thing on a Thursday night, coming out - as a matter of fact, there is always a question when is the right time to do this thing, and I think that...
- Haas: Over a weekend.
- H.M.Jr: I think over a weekend is the time to do this thing.
- White: There is another reason why I feel over the weekend is the time to do it. That is, what you are approaching is for broad monetary policy; it isn't something you should decide overnight. It is something - it indicates the interest rates are as high as you think is justified by the fundamental condition and the thing to do is to ease it up, all in a leisurely fashion, and it would help to give that impression rather than...
- H.M.Jr: Well, I mean if we had a press conference here Saturday afternoon and Eccles was here, if we did this thing in a statesmanlike manner. And we've got this other

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meeting coming tonight; I couldn't prepare. I want to examine each word under a microscope.

Haas: That statement wants to be very...

H.M.Jr: Each word under a microscope.

Seltzer: It would be a joint statement.

H.M.Jr: Oh yes. But I mean Eccles got out that statement of his - he told me he did it over a weekend, didn't show it to anybody. I don't work that way. I mean this thing we took up to Harvard - the reason it stood up so well is because we examined each word under a microscope and took a month to prepare it. I don't know that I want to do this gold thing; I don't know.

White: It is an important step, and it would seem to me that the occasion doesn't warrant your rushing it.

H.M.Jr: Supposing as a matter of fact it came back and...

White: So much the better. I mean I wouldn't be guided - if it goes back, so much the better, the doing it.

H.M.Jr: I mean Eccles - this is the first day they've had to take it alone in three and a half years.

White: Mr. Secretary, I think it is important that you don't change your mind merely because the bond market snaps back a little. I think to do it Thursday night is ridiculous.

Seltzer: Fundamentally, you've got a very good case for pumping out this half a billion dollars of idle money, because your banks are going to have a real squeeze around May first anyhow.

White: And, more than that, the interest rates have reached the level where you are justified in doing the opposite of what you did when you started sterilizing gold. Let's not forget why we did that. Now, the opposite of....

H.M.Jr: What is the opposite?

White: The opposite is that interest rates have reached that

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level at which we think they oughtn't to go any higher in view of the fundamental economic conditions. Therefore, if bond prices rise a little tomorrow, then so much the better if you do it Monday morning. It shows definitely that it isn't support of the bond market and that it's money rates.

Seltzer: I don't think your statement ought to commit you to support any level of interest rates or any level of the bond market. But it would be a simple thing, I think, to write a statement merely saying on behalf of yourself and the Reserve Board that it appears from the action of the market that these increases in reserve requirements to take effect May first are very obviously hard on some of the banks; they have to sell securities and this is tending to "up" interest rates; our policy is low interest rates; and we are prepared therefore to add to the reserves of the banking system for that purpose, to implement this low interest rate policy.

H.M.Jr: Well, I think - I mean it's a physical impossibility to prepare any statement that I could agree on to give out for tomorrow morning.

Haas: I wouldn't; no, I wouldn't.

H.M.Jr: No, but Eccles - he's sort of....

Haas: He's a little panicky.

White: Anyhow, I think a problem like this should be slept on.

H.M.Jr: Another thing, I've got to go see the President. I don't know how the President will feel about it. I'm not going to rush over there and.... Say, listen, I've been through this thing before and I've never done a thing on an overnight basis. I've never done it since I've been here. I'm not panicky. As a matter of fact, I had my nervous moments down at - when I was away at Sea Island. But I gradually got this thing down and this thing is so bad that - whenever anything's bad, my chin is always up. I mean I can take these things. I mean I - there's nothing panicky about me tonight.

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- Haas: I think what we might do, Mr. Secretary - if you do decide to do something over the weekend, we might start making some drafts of the possible....
- H.M.Jr: Well, Eccles will be here in five minutes. You fellows sit here and hear what he has to say, get it fresh; let's hear what he has to say.
- White: I think it would have the further merit - using gold - of indicating that your monetary policy is coherent. You sterilized that gold at a time when the situation was such. Now you do the opposite when the situation has changed. It's all in line with the monetary policy that you established. So you're not doing the unexpected - I mean you're not doing what you didn't anticipate as a possibility.
- Haas: It would greatly improve your - I mean incidentally it would greatly improve your cash position, probably.
- H.M.Jr: Don't mention that.
- Haas: Not fundamental, but incidental.
- H.M.Jr: Oh, it's so incidental.
- Haas: You haven't even thought of it.
- H.M.Jr: No, it's just - just...
- Haas: A windfall.
- H.M.Jr: This is a windfall - tax reversal and the like.
(On phone) Tell Mr. Gaston to come in, please.

(Mrs Klotz comes in;
Mr. Gaston comes in)

Well, it's times like this that take a little poise, a little judgment, a little backbone. Huh? I gathered from the message that I got that Eccles wants to do something tonight; I'm absolutely opposed to it. I think it's not statesmanlike. Have a very bad effect in the middle of a week to come out with an announcement about bonds; show we're frightened. If we're going to do anything, let's do it on Saturday afternoon and Monday morning. I'm not going to be part and parcel

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to a performance..... This is the middle of the week. They've had one day of this.

Haas: They didn't increase their portfolio, did they, today?

H.M.Jr: Oh no. What I mean is this. You see, we told them ten days ago we had fifteen million dollars left and when that was finished they'd have to go it alone. Today was the first day they've had to go at it alone. They didn't increase their portfolio, no. I mean we didn't take fifty percent of it - today is the first day they took everything - about eight million.

Gaston: Did you want to make a statement?

H.M.Jr: You'll hear it in a minute. He's coming here. - - It's awful hard for me not to smile. I'll tell you now, if we do something, I'm going to wait and tell Eccles before he leaves that if there's anything that comes up between now and Saturday making it seem that Eccles was the "white-haired" boy, this time I won't keep quiet. I'm going to tell him so. If he has his friend Elliot Thurston slipping it to anybody between now and Saturday, believe me, he's going to get it. I'm going to tell that to Marriner personally. Reading Paul Mallon Saturday, how Eccles made the Treasury do so and so.....

White: Truth has a way of getting out, Mr. Secretary, I should think.

H.M.Jr: Do you think so?

White: In time - not at the moment, but....

H.M.Jr: Yes, but look how bald I'm getting.

Haas: He may not live long enough to get time to.

White: Look how bald you can get.

Haas: Some of those others haven't caught up with you yet.

White: No, you'll be a long time. History is what counts, not the moment.

H.M.Jr: I don't know why George is so cocky about the top of his head.

(Taylor comes in)

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White: He combs it well.

(Viner comes in)

H.M.Jr: In view of the fact he said he wanted to do something, I've been talking it over here. Do you (Viner) want to talk until he comes?

Viner: No, I don't think so. I must confess that I'm all at sea; I really haven't been able to make up my mind. I've been trying to get an idea of the general picture. I think myself that there is no way of saying now just how bad that bond situation may get. There is a combination of unfavorable circumstances and just how - what the size of the reaction will be I don't know. And I suspect very much that there is nothing you can do of this shifting - Federal Reserve shifting from short to long, or even its open market operation on a reasonable scale, or using this inactive gold - that may not suffice.

Seltzer: You don't think that will have any effect?

Viner: Oh, I don't say it wouldn't. I say you can't forecast whether it will have a favorable or unfavorable effect, unless - because I'd say the one solid thing to do is something that is probably out of the picture, and that is an extra tax measure or an agreement to reduce the expenditures - in other words, to get the budget into shape. Now, otherwise I don't see what else - what else can be done that is sure to improve the situation.

I have come to the opinion now, since thinking it over and talking it over, that if you were to use the inactive gold it might conceivably - I think it might help, but it might hurt. They might say, "This is a fancy move and it's not really correcting the situation at all, and it's using up something that shouldn't be used for this purpose." And open market operation might operate the same way.

Seltzer: On the other hand, over a period of a couple months, you do get that much more excess reserves out.

H.M.Jr: Seltzer, excuse me. Before he comes, I've made up my mind about one thing. I want to tell you I will not do anything tonight. I just want to let you two men know that. It's unstatesmanlike, it shows fright,

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it shows panic. I'm not panicky, I'm not frightened. I'll not do - if anything, it will be Saturday afternoon announced for Monday morning. I didn't want you crowding me in case he should. I will not do anything until - I mean I'm not that worried. Wayne?

Taylor: (Nods affirmatively)

Seltzer: What I meant to say was, regardless of that - and I agree with you that a real move toward balancing the budget would have the profoundest effect of anything - nevertheless, the mere fact of increasing the reserves exerts an undoubted technical effect in the right direction.

Viner: That's right.

Seltzer: And that effect is, I think, needed in view of that May first increase.

Viner: Yes, but on the other hand the mode of increasing it may result in a psychological effect in an unfavorable direction, and what I can't make up my mind about with any confidence is that the unfavorable would be less than the favorable.

White: Why, Jake? Isn't that exactly what the gold was put in the inactive account for - was to reduce the excess reserves.

Viner: You mean....

White: Remember, it was to tighten money.

Viner: Yes

White: And here is a situation in which the money market appears too tight, and therefore if you do use it you would be using it for exactly the purpose for which it was originally utilized.

Viner: Except that the way it works out is that we are using bill borrowings of the past intended for a sterilization effect as a means of meeting cash balance demands. That's what we're really doing. You see, what it does is to fix up our cash balance. And what they say is that the Treasury had to revert

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to expedients to retain its cash balance.

H.M.Jr: Listen, did anybody say that when the Bank of England did this about two or three months ago? They didn't. They just - they had to unload. They made that swap. What was it - a couple of months ago?

Taylor: The net amount was only five million.

H.M.Jr: How much?

Taylor: Five million pounds.

H.M.Jr: Yes, but they made a swap.

Taylor: Yes, but it was only five million pounds.

(Eccles comes in)

Eccles: Hello.

H.M.Jr: Come in, we're all friends.

Eccles: Can I have Dr. Goldenweiser - be all right for him to come in?

H.M.Jr: Absolutely, we're all friends of yours. We were just chinning.

(Goldenweiser comes in)

All right.

Eccles: You waiting for me?

H.M.Jr: Yes.

Eccles: We have been discussing this situation. I talked to Dr. Viner a little today over there, and I've been talking to some of the members of the Board that are here - and Dr. Goldenweiser for the last hour or so. And it is my conclusion, I think more or less the general conclusion over there - I don't want to speak for the others because they weren't quite as - might

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not have had the same conviction. But I can speak for myself, that what I think this present market situation needs is a show of courage. I think it needs a show of real aggressiveness at this time; that an adjustment based upon a changed situation was warranted, but a - to completely more or less withdraw from the scene, leaving the control of your bond market or your capital market up to - I was going to say the forces of nature, but I should say the forces in New York - it seems to me that we shouldn't continue to do it.

You do have your Government bond houses, of which there are quite a few, that - and also a few of your very large banks - that can be very potent factors in the situation, for their own interests. I don't say that they are, but I mean those things are possible; they have been done. The insurance companies and the investors generally, of course, pretty largely center in the money market, and it is perfectly natural that what they'd like to do is to get as high a rate as they can get. That's always been their case and it always will be.

I don't say that this is the case now, but I remember in the past some of the New York banks advising their correspondent banks to hold while they were selling, and then they usually advised them to sell while they accumulated. I mean that thing has happened; I've seen it happen. I don't say that they do it in an organized, conscious way, but it's just a question of the game of the individual operating to whatever extent it is possible in their own interests. The Government has assumed for a considerable time quite a degree of control over the money market, and I think we must continue to do it to all reasonable degree.

So I think that either the Treasury should use their gold - and by the way, I understand there is about a hundred and some odd million - maybe 175 or 180 million of free gold....

H.M.Jr: 186 million.

Eccles: All right.of free gold that would not involve the gold that's been sterilized. There is certainly no reason why that shouldn't be used, and every good

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reason possibly why it should be used. And also, possibly we should use the full amount of the gold sterilized.

That would accomplish two things. It would of course make it unnecessary for the Treasury to go the market for money for some little time. That would be notice, without saying so, to the money market, investors and banks, that they wouldn't have an opportunity to do some additional financing at their own terms. And they would, further, have excess funds instead of using existing funds, with which to buy securities. So it would accomplish two purposes.

H.M.Jr: You mean the Treasury would have....

Eccles: Yes, I mean the Treasury - no, the banks would then have excess funds.

H.M.Jr: Oh, I see.

Eccles: See, by that process. And instead of having to use existing funds with which to buy Treasury securities which they would have to sell if they don't use the gold. See? Now, that's one way, and it may be debatable as to whether it - I don't think it is debatable about the 180 million at all. That, after all, is the Treasury's fund - free gold - and it is theirs to be used; it isn't up to me to say whether they should or they shouldn't, but I can only express what my opinion would be with reference to it.

Now, with reference to the 300 million, it may be debatable as to whether that should be used or whether the Reserve System should aggressively, over the period of the next week, buy a couple of hundred million or more - whatever the situation may warrant - of Government securities.

H.M.Jr: You mean over and above your present amount.

Eccles: Oh yes, oh sure. Now, I am at the present juncture very much in favor of showing an aggressive position. Now, this market - it isn't a question of destroying any confidence in the market, it's a question of establishing it, and I am personally very much in favor of either one action or the other action, or a combination of both.

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H.M.Jr: When?

Eccles: Well, right away, just as soon as - whether it should be tomorrow or the next day - I mean after all the timing is important, but it seems to me that it is something that shouldn't be put off to an indefinite period.

Now, I've called a meeting of the full Open Market Committee for Monday. I don't mean to say that this matter should be delayed 'til after that period - especially the Treasury position, which isn't a matter of the Open Market Committee; it's a matter that the Treasury discussed with the Board, and we don't have to wait for the Open Market Committee in the picture at all. But we felt that, so far as the open market operation is concerned, the full Committee should be called, at least in order to just discuss and consider the whole situation.

H.M.Jr: Through?

Eccles: (Nods yes)

H.M.Jr: Well, this is the way I feel. First, I think all these things are a question of timing, which is important. I think it would be a great mistake to do it tonight or do it tomorrow. I think something should be done on a Saturday afternoon in a statesmanlike way, where we have plenty of time to do it for Monday morning release, so that it doesn't look as though we were frightened, because I'm not frightened. I mean I'm not frightened and one day won't make any difference.

Eccles: That's right.

H.M.Jr: To do it on a Thursday night or Friday night would look as though we were frightened, and the effect would be lost. So I think it's a thing that should be done on Saturday afternoon - joint press conference, very, very carefully worked out, both staffs working together and with the utmost secrecy, no hints or leaks to anybody. I mean I think if there is the slightest leak the whole thing, the effect of it, is lost. I can vouch for the Treasury that there will be no hints to anybody - any letter-writers or anybody - that way. I think if there is any hint

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that the thing is coming, the effect of it is spoiled.

Eccles: Of course, there may be press discussion in spite of everything you can do.

H.M.Jr: Well, I know you can't....

Eccles: These news fellows around - I mean there has been enough....

H.M.Jr: I know, but we have - if we can keep an agreement between England, France and the United States secret, I should think that this could be kept secret.

Eccles: You're thinking more particularly of the timing rather than of the question whether or not the press might talk. I mean you can't stop them from talking about it.

H.M.Jr: Well, just so they don't get hints about it.

Now, as to what to do. I am - as I told you on Tuesday, I feel that I am leaning toward this gold thing, and that's the way I feel tonight but I wouldn't want to put my name to it tonight. I agree with you completely that it is a time for a show of confidence. I don't believe there is any fundamental reason why Government bonds should sell on a three percent basis. There just isn't any reason.

And it's like - I've been through this thing for a little over three years, and I'll never forget the time when I was in Farm Credit and the President was so worried about the bond market. And through our - I don't know whether I've told this story, but through our fiscal agent of Farm Credit, we placed orders of a million dollars for bonds on a Saturday morning in about twenty different houses. We didn't buy a bond, but they had orders for twenty million dollars. And we turned the market. Somebody had to show that they had confidence. I mean I was in Farm Credit and the President didn't even tell the Treasury that I was doing it. The thing was so - the situation is different now, I guess, and there's confidence in the

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Treasury. But I think it's a question of a snow of confidence and I don't believe that there is any reason in the world why this thing can't be turned.

Now, I think tonight - as I say, I want to look over and over this thing, because I haven't even discussed this with the President. I mean I talked to him about this thing this morning and I told him, quite frankly, that I talked to you last night and that I have your suggestions and that I was waiting - I was waiting until you people got to the point that you have now. I didn't think it would come this soon.

I go this far, and I'm looking at this thing in the broadest way possible. I think that what we ought to do is - I think we ought to put five hundred million dollars worth of sterilized gold into this picture, plus a very aggressive open market operation.

Eccles: Well, be prepared to do it; you may not have to do it.

H.M.Jr: But stop this swapping.

Eccles: Yes.

H.M.Jr: Now, I'm convinced, and I got convinced at six o'clock this morning, that - for the first time I can see this thing clearly - that every time you sell ten million dollars worth of short term securities the banks sell ten million dollars worth of bonds in order to get ten million dollars to buy the short term securities. They're swapping. I don't say it actually takes place, but something like that takes place. The New York bank sells ten million dollars worth of bonds, gets ten million dollars, and buys ten million dollars worth of notes, which you sell in order to buy ten million dollars worth of bonds.

Eccles: That's all right, normally, in a normal fluctuation, but in a major decline it's.....

H.M.Jr: And just as long as you people keep up this swapping, I think this thing is going to continue.

Eccles: I haven't done much of it; it's a bagatelle really.

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H.M.Jr: True, but it keeps going down and down. And I was never calmer or more collected than I am now. But, as I say, the way I feel - I feel, subject to the finest magnifying glass that your staff, plus ours, can put on it, that I'm in favor of this thing, starting Monday morning with an announcement that the Treasury puts five hundred million dollars worth of sterilized gold into the System, plus an announcement that beginning Monday morning the Federal Reserve System is going to start open market operations.

Now, if you people do that - I'll say to you that if you do that I'll take up to a hundred million dollars worth of bonds.

Eccles: How do you mean you'd take....

H.M.Jr: I'll give you orders for a hundred million dollars worth of bonds Monday morning. I'll go fifty-fifty with you on a hundred million.

Eccles: Oh yes.

H.M.Jr: I'll take another hundred million dollars worth of bonds.

Eccles: With your trust funds, you mean?

H.M.Jr: Well, I don't know where we'll get it, but we'll get a hundred million dollars. We'll give you orders for a hundred million dollars. We'll start out Monday fresh on a fifty-fifty basis, provided that this is done. In other words, I've got enough confidence - I want to show I've got enough confidence, if you say you'll start open market operations Monday morning and we put in five hundred million dollars - I'll give you an order for a hundred million dollars worth of bonds. I mean that's the effect it has on me. See what I mean? That's how I feel about it. I'll find it some place, and I say that I'll give you an order for a hundred million dollars worth of bonds. But I think anything short of a big broad stroke - if we do this thing in a "piddling" way, that the thing will fall, that it's got to be done big and it's got to be done in a very careful joint statement where every single word is weighed.

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Eccles: You think that both actions are necessary?

H.M.Jr: Yes, absolutely.

Eccles: At least you think that we should - I'm just wondering - I'm not sure in my own mind as to whether both actions, the extent of them - it is necessary to announce them all at the same time or whether it would be best to be prepared to....

H.M.Jr: No, Marriner.

Eccles:to proceed...

H.M.Jr: Marriner,...

Eccles:with your open market in case the other....

H.M.Jr: No, no. I'll tell you the effect it has on me. If you don't do both, I withdraw my order for a hundred million.

Eccles: Well, of course...

H.M.Jr: Now just look, we're talking here in the family. I can give you my word of honor that what's said in this room won't go out of this room. If I may suggest, I would get your full Open Market Committee in Saturday morning.

Eccles: Well, that's what we talked of doing. Of course, we figured that Saturday....

H.M.Jr: Well, let those fellows get on planes and trains.

Eccles: Will you (Goldenweiser) call up Morrill, get him on the phone, and change that. And if Day can't take a plane from Frisco, tell him to get Peyton. In fact, I'd sooner have Peyton.

H.M.Jr: Wait a minute. Mrs. Klotz, let - you show him the room.

Eccles: Suggest to Day that if he doesn't want to take a plane he call Peyton.

(Goldenweiser goes out to phone)

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Viner: Do you have to announce the meeting to the press when you call a meeting?

Eccles: Oh no, we never do. They usually find out when it is over, but they never know before.

Now, I think we ought to prepare ourselves before they get here. There's going to be a good deal of resistance on the part of the Committee, I know.

H.M.Jr: But Marriner, look, I've been through this thing again and again and I've had to do it all alone. And we're so much further along on recovery than we were. I mean they talk about - I mean that time we went over to see the President, Earl Bailie and I, we told the President, "Mr. President, we hate to tell you this, but your vest and your pants don't meet by three billion dollars," and that was the time that the President went absolutely white as a sheet and didn't talk for fifteen minutes. But in spite of that, we went ahead and step by step built this bond market up. Now, our picture is all right. There's nothing the matter with this country. But these fellows have got the jitters, and New York is always either way down in the cellar or way up going off the roof. And it's only a matter within the last two months that somebody around town was begging me, couldn't we release a few of our long term bonds to keep the bond market from going up too high, and last July they wouldn't buy a 2 7/8 bond.

Eccles: Of course, things go too high and too low.

H.M.Jr: Now, I want to say that if we put the five hundred million in and you find that things are going too fast, you come around - "Now wait a minute, Henry, we've gone a little too fast. How about taking a hundred or two hundred million out and sterilizing it again" - we'll be perfectly willing to do something like that. See what I mean? I mean maybe five hundred million is too much.

Eccles: Either we could do that, of course, or we could let some of our stuff run off or let some of your stuff run off.

H.M.Jr: But if you came to me in a month or two and said, "We've gone too far and will you please take a hundred million of gold out, or two hundred million," we'll be glad to do it. But I think that this is -

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you've got to do the two things together.

Eccles: I think we're not going to say we're actually going to do it. We're going to say we're prepared to do it. Because to say you're going to do - now let's just assume you put five hundred million of gold in - that means excess reserves - and we say we're going to carry out an open market operation of, say, 250 million. That's 750 million of excess reserves you're going to put in. You've got over five hundred - you have close to six hundred million excess reserves; you've got excess reserves, then, of about a billion three. I say be prepared to put that much in if necessary, but don't say, see, that irrespective of where your market goes or what happens you're going to put that in anyway. See what I mean?

H.M.Jr: That's why I'm not prepared tonight. But I say this: that whatever the announcement is - I mean the announcement should be that we are prepared to do both, and...

Eccles: And they are both flexible.

H.M.Jr: I'll consider that overnight. I mean I might say we are ready to put in up to five hundred million dollars of gold, you people are ready - beginning Monday, you will start open market operations; and you don't have to say how much, but any bond that you buy Monday will be from the open market.

Eccles: I think we should simply say that is our policy.

H.M.Jr: But you say, Marriner, that you're going to start open market operations Monday, and we're going to begin to put back sterilized gold in the System; we don't have to say how much. I don't know; I'd like to think it over.

Eccles: Well, I think that of course is all a question of the psychology that we create, the way we do it, and to say the extent to which we're going to do it - my feeling is now it would be a mistake. Just simply say you are prepared to put that much gold in. Say you are prepared to do it, not that you're going to. Which means that it will reduce the need of financing to whatever extent that you do do it. It means that you put new money into the market.

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H.M.Jr: Well, we don't feel we want to say anything about our financing.

Eccles: Well, you don't need to. That can be off the - that can be the background for the press story. They can do that. You don't need to do it in the announcement as such, but certainly the press boys will mighty soon interpret that; at least you can see that the Treasury won't have to go to the market for money.

Gaston: Wouldn't the announcement relate simply to the release of the sterilized gold and the explanation of why, and then let the open market operations speak for themselves later.

H.M.Jr: No, no, Herbert. The announcement has to be that, beginning Monday morning, the Federal Reserve is going to start open market operation. Now, how much they don't say. They'll start open market operations Monday. Maybe they don't buy any bonds.

Eccles: Maybe on Monday we find the bonds hopped right up without any buying.

H.M.Jr: But they are prepared to start open market operation Monday morning and the Treasury is prepared to put in so many millions of dollars or will deposit - will or is prepared.

Viner: You don't mean putting it into the cash balance, but putting....

Gaston: Just deposit gold certificates.

Viner: For what purpose?

Gaston: For the purpose....

Taylor: To ease the situation.

Viner: To ease the situation.

Taylor: Yes

Viner: So it will be available for the payment of ordinary expenditures. To maintain the cash balance. Otherwise, it doesn't lessen the need for resort to the market.

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Taylor: I don't think it is necessary to say that. This is to ease the situation.

Eccles: I don't think you'd say to ease it. It seems to me that you have to be pretty careful on that score.

Taylor: Well, whatever you say, but it isn't....

Eccles: If you're going to put that into the market....

H.M.Jr: I think if you and I talk about interest rates - I think we are awfully safe on that. Say that we don't feel that the level - that we are not satisfied with the level of long term interest rates.

Eccles: I think what we want to do, rather than say specifically we might say that it is for the purpose of stabilizing, see, the capital market. That's really what it amounts to.

H.M.Jr: I think everybody has to make this thing letter-perfect. I agree with you that we could agree on a statement that you could show - "Now look, this is what the Treasury and I have agreed to" - just show it to the boys and let them take it and like it.

Eccles: That would help very much. At least, you've got a basis there to work on.

H.M.Jr: I'd like...

Eccles: Let's get somebody tomorrow. I'd like Dr. Goldenweiser and Thurston to work with whoever you may...

H.M.Jr: He can work with....

Eccles: ...whoever you designate. They can work on a statement and you (Goldenweiser) and Mr. Thurston work on a statement and tomorrow afternoon they can....

H.M.Jr: They can work with George and his staff, I guess.

But I think - I mean we ought to have another talk, you and I, when we are fresh, and agree as to just what we are going to do, and put it down in pencil and say, "Here's what you and I have agreed to."

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- Eccles: Don't you think that it would be better to let them work on this thing and then let us meet tomorrow afternoon? I mean we've discussed the general picture.
- H.M.Jr: Well, I've got Cabinet tomorrow afternoon.
- Eccles: Well, after Cabinet.
- H.M.Jr: Well, I'm no good after Cabinet. I'm all right tomorrow night. I have nothing tomorrow night; I'm free. Aren't you?
- Eccles: I'm free tomorrow night.
- H.M.Jr: But after Cabinet is the worst time to see me. I get awful sleepy.
- Eccles: You mean after or during?
- H.M.Jr: Both. Both. I'm free tomorrow night. I can hit it tomorrow night. I'll be glad to hit it tomorrow night.
- Eccles: That will suit me.
- H.M.Jr: But I do think - but may I just say this? If we are going to do this thing, if you say you want to make a showing, let's go the full way. Any mealy-mouthed half-way thing isn't going to do the trick. That's what I think.
- Eccles: I agree with you that we've got to show a - make a show of strength and a show of courage and a show of confidence. Now, that is after all what you've got to do, and that doesn't mean any half-way measures. At the same time, neither do I think that in order to do that we should make any specific and definite commitment.
- H.M.Jr: We never do here in the Treasury.
- Eccles: To say that we are going to put five hundred million dollars in and we're going to carry on open market for a certain amount - not that, but the Treasury is going to put - use so much gold, up to - that's it, up to - and that the Reserve System is going to carry

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out an open market operation to the extent necessary. In other words, the action of the Treasury, the action of the Federal Reserve, to the extent necessary to stabilize the capital market.

- Seltzer: Don't be too stingy in your promises.
- Eccles: But you don't want to state any specific amount. What you're doing here is saying "to the extent that it is necessary."
- Golden.: The specific amount we can consider.
- White: There wasn't any intention of specific amount.
- H.M.Jr: No, but, Goldenweiser, if we just give a lip service as to the amount of gold we're going to put in and don't put any gold certificates in, that doesn't help any.
- Eccles: Oh, put some in, but....
- Viner: I think the effect would show itself. You put it in in order to get a visible effect on the bond quotations. As they were going up, that would show that market that you were operating. What you do is make up your mind that you throw in enough to have a reassuring and visible effect on bond prices.
- H.M.Jr: But Jake, you just couldn't say we're going to put in gold certificates and not put any in.
- Eccles: You've got to put some in.
- Viner: But I don't think you have to state any amounts.
- White: You can put a substantial amount in - large amount - and with the indication that you will put more in if, when and as called for.
- H.M.Jr: But what I meant is that there must be some gold certificates put in, and not just say we're going to do it.
- Eccles: The Reserve System must be in the market, actually buying bonds.
- Seltzer: I don't see any objection to putting a whole five

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hundred million in, because you don't have to spend it; it gets into your cash balance and people see that you are prepared to spend it.

H.M.Jr: It does not get into excess reserves?

White: Not until you spend it.

Viner: You're in a different position there. I mean you don't set aside a fund for open market operation, but the Treasury can set aside a separate fund without affecting excess reserves or anything else.

Eccles: That's right.

H.M.Jr: They can put it into the Reserve System and it doesn't affect it until they spend it, and they can then pull it out again if they didn't need it.

Seltzer: It gives very definite notice to the market that we are prepared to increase excess reserves a half billion dollars.

Eccles: Of course, there is this argument for putting it all in, that if you do that it may have a sufficient effect and when it comes to open market operation you'd have darn little to do.

Gaston: If you wanted to show on the Monday Treasury statement that you put the gold in Friday, nobody would discover it except us and the Federal Reserve Bank of New York until Monday morning; but it would be on the Monday statement.

H.M.Jr: Couldn't we do that Saturday.

Gaston: No, you couldn't do that Saturday because the statement that comes out Monday covers Friday's business day.

Eccles: You could certainly put in, say, the 180 million.

H.M.Jr: No, no. Well, I'm not going to do anything tonight. This is too important.

If Eccles doesn't mind, I would like to hear from Goldenweiser how he feels on this thing. Is that

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agreeable to you?

Eccles: Oh sure.

H.M.Jr: Would you (Goldenweiser) mind saying just....

Golden.: Well, I am in favor - I find myself very much in agreement with what both you and Mr. Eccles have said, because I feel that it is a time for - unless one wanted to do nothing and just let the thing find its own level, which I personally would not be in favor of, the only alternative to that is very courageous, bold action on a large scale, because otherwise you're just simply giving an opportunity for the people to unload on you. I mean if you just make an offer of 25 millions at that level, you get your 25 millions. That is a good technique for stabilizing fluctuations, but not a good technique for actuating a real movement. So I am very much in favor of large scale, bold action. I am in favor of having that action be both by the Treasury and by the Federal Reserve.

I would - I have recommended to the Board that they go into the open market to increase their portfolio on a considerable scale, whatever date it will be done - Monday morning would be fine. On the Treasury side, I feel more reluctant to even make a recommendation, because it isn't our field.

H.M.Jr: No, please do. I'm asking for it.

Golden.: But I should have preferred if you could use your 180 or 190 millions that you have. That doesn't involve any change in policy, if I understand it correctly. And put that in first and put your sterilized gold in later if you find it necessary.

But make your announcement joint and make it clear that all the resources of both agencies are at work to support this situation.

H.M.Jr: Do you feel strongly as between how much we put in on our free balance....

Golden.: Not strongly, no, sir, but I would - there is only one point on that on which I have a feeling, and

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that is this: you can do the one thing without reversing any policy, without cancelling your - the thing that you started doing last December. Is that correct? That 186 million can go in without any change in policy. And I would wait for the change in policy for a day or two and see whether it was necessary.

H.M.Jr: Well, if you don't mind my arguing with you, and you argue back - I don't think it would be enough. In the first place, 180 wouldn't be notice to the market that we don't need to borrow any more money before the first of July. Which is very important, without our saying it, see?

Golden.: Yes.

H.M.Jr: If we put the five hundred million in, then they know we are out of the market until the 15th of June. I think that is very important. We don't say it.

Eccles: The press can say it.

Golden.: That may be conclusive.

H.M.Jr: Do you see what I mean?

Golden.: Yes.

H.M.Jr: I wish you'd sleep on it. I'm not going to - trying to sell it to you tonight. I'm not - I mean I'm terribly glad Eccles wanted to come tonight and talk, because I've been feeling this way now for ten days but I didn't want to hurry you people. I wanted you to do it when and if you felt it was necessary. But I do think that the 180 isn't enough. And after all, as you point out, if we do put the five hundred in, it doesn't go into your excess reserves until we spend it. And if after the first of May or some time - or by the first of July, when we've got our financing over and everything is quiet, and there's no reason why part of that shouldn't be - at the rate it's going, we'll have another sterilized gold fund before we know it. But I think we ought to have a signal to the market that the Treasury has enough money from now until the 15th of June, and you can't do it with 180.

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Eccles: That's the most important argument for it. You won't have to go to the market.

Golden.: There are other considerations than strictly the market. As you suggest, I shall be very glad to think about it and give you what I think about it any time you want to know. But I am very much in favor of aggressive definite action in the open market by the Federal Reserve at this stage.

Eccles: The way to - it would have been better if this market had found its level of its own accord at a reasonable point. I mean that's what it could have done and likely would have done, I think, if some of the bond houses and the New York banks had been desirous of cooperating in that sort of a picture, instead of maybe doing what they could otherwise. Of course, we have had other factors too that may be just as important, if not more important than anything they may say, and that is this budget picture that got to the press. You know about that. That was used, of course, to a considerable extent. The strike situation, other factors - we've got a combination of circumstances here that has been terrific. So that it has created more or less of a panicky situation, consternation on the part of a lot of investors in securities, feeling that they are - that we may have lost confidence in the thing and that the Federal Reserve and the Government itself is really not doing much about it, and that there is no real force directing this market development.

It's a very different matter, it seems to me, to act aggressively with securities in a rout like they were today, at today's prices, than would have been the case at a - when the market is almost dried up and with prices, say, two points above the present level.

H.M.Jr: The prices - it's all to our advantage, and if they should go off tomorrow and Saturday I wouldn't feel badly, because when we do come in, that is - it is that much easier to correct.

Eccles: I just wish they would go off a little....

H.M.Jr: After all, I've been at this thing for over three years, and everything tells me that if we do this

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thing - all my judgment tells me that if we do this thing whole-heartedly and forcefully, and not in a mealy-mouthed manner, it will be effective.

Viner: Shouldn't there be a general idea before the operation is started as to just where you want to bring them back. In other words, do you know when you want to stop? You don't want another relapse later.

Eccles: Yes, don't try to bring it back to the point where you have a.....

Viner: Feel the market out and see how it responds?

H.M.Jr: Of course, you can't - I say this: that I'd like to see all the Governments sell above par anyhow.

Eccles: You can't hold them there. You'd just have trouble again.

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

Eccles: You will if you don't....

H.M.Jr: I don't think that that - never had any trouble stopping them from going up.

Eccles: No, but you have trouble when the darn things come down again, and to get them up to a point where they can't be held over a long....

H.M.Jr: Well, you won't have any trouble with me on that. We can talk about it. That isn't - that doesn't worry me so much.

White: But don't you think, Mr. Secretary, it is something that might well be determined ahead of time, because it involves a question as to what you consider a reasonable level of long term borrowing interest rates, and I think that ought to be decided independent of the feel of the market.

Viner: The market is going to interpret your action. If they get to know you are operating on a large scale, they will watch to see to what level you are trying to bring it and they will attach importance to that as a level desired by you.

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- Haas: Of course, you wouldn't be operating all the time. The effect of the momentum should carry it up and I don't anticipate that you'll have to keep operating all the time.
- Eccles: That's why the open market has got to be very, very flexible, because it might go up of its own accord.
- H.M.Jr: You won't get many bonds. You're not going to get many bonds.
- Seltzer: Then, the effect doesn't stop when you've finished buying your securities. You have, after all, inflated your excess reserves....
- Viner: No, but I mean if you keep on buying after it's reached a certain level and the market keeps on rising and they know that the Treasury or Federal Reserve is still buying, they will infer from that that you want it to go to still higher levels - that you think a still higher level is appropriate. I think that is perfectly all right if you do think that, but you oughtn't to push it up above that level at which you think it should really be.
- Eccles: That's absolutely right.
- H.M.Jr: Well, can you say what level it should go to?
- Viner: No, I don't. But some sort of rough judgment will have to be made - I should say group judgment.
- Seltzer: The Secretary has made one of them. He said all the Governments above par - or at par, better.
- H.M.Jr: Well, certainly - certainly nothing has happened since - during the month of March which says that the Governments, $2\frac{1}{2}\%$ issue, shouldn't sell at par. You fellows were all in there and nobody told me we shouldn't sell another $2\frac{1}{2}\%$.
- Eccles: Well, of course, you had to price it at what the market was at the time. I mean you couldn't give them a premium....
- H.M.Jr: But nobody said, "Don't sell any more $2\frac{1}{2}$'s." As a matter of fact, every person but one advised me to sell it at a half point less than what I did. I

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mean nobody said.... And nothing has happened in the economic fabric of this country which says that a 2½ bond shouldn't sell at par.

White: I think possibly there has.

Viner: No genuine sign yet of a genuine balancing of the budget. I'd say that is a very important factor. If I were an investor, an insurance company, I'd say that's a very important factor. You can't deny that this unbalanced budget is a factor.

White: And further, a price rise is another factor.

Viner: Yes. And the war - the international relations aspect.

Eccles: International inflation. Your British bond, your Canadians - all of the Government bonds all over the world have been going through this adjustment.

H.M.Jr: If you talk much more, I'll say that this won't be effective and I don't want to do it.

Eccles: No, I don't say that.

White: No, we're talking of, say, somewhere between two and a half and three.

Viner: I'd say it wouldn't be effective, I'll guarantee, if you try to get it back to a two and a quarter base. I'd say it wouldn't be effective. No signs that you can do it.

H.M.Jr: I think the thing to agree on tomorrow is what action we're going to take to stop it from going any lower.

Eccles: That's right, that's the thing.

Viner: That's one sort of decision.

Eccles: And that's the way I like to state it: stop it from going lower and then let it find its own level back.

Viner: Without binding yourself to purchase any specific amount.

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H.M.Jr: Well, I've never given an order since I've been here to put the bond market up.

Eccles: But excess reserves is the indirect thing that....

H.M.Jr: We've never given an order to New York to put the market up. It's always been to keep it where it is or keep it from going down. We've never given an order for the market to go up.

Look, Marriner, I can't go any further in my thinking on this thing tonight. I've given what I've got. I'd like everybody to think about it. Fortunately, my morning tomorrow morning is entirely free, so - we've got this meeting tonight and I'm going to meet with my own boys at ten tomorrow, and we'll see what we can work out, see? Now....

Eccles: All right. Then let's do this. You meet here and we'll meet and let's see what we can formulate independently after this conference, with the idea that either late tomorrow afternoon or late tomorrow evening we'll get together.

H.M.Jr: Herbert, see if any newspapermen are in the hall, will you? I don't know whether they saw Eccles come in or not.

Marriner, I just want to say something alone for a minute.

(Secretary and Eccles confer aside)

Now, I don't want Waley-Eaton, Kiplinger, or - what's that fellow's name?

Haas: Goldsmith.

H.M.Jr: Or Goldsmith or Moody - nobody to see them. We're just busy, see? I mean I don't want anybody to see any of those letter-writers, see? What? And any newspapermen. I don't want anybody to talk to anybody. I mean I'm not....

Eccles: I don't want to see anybody for six months.

H.M.Jr: But Marriner, so nobody - the lid is on as far as the Treasury goes.

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- Eccles: Well, of course, I'm in a little different situation from you. We've got Board members. I can't put any lid on the members. As far as the staff is concerned, I can talk to them, but when it comes to the members themselves, it's - I - I mean you can suggest that.
- H.M.Jr: Well, I say I think that the effect of the whole thing would be spoiled - the psychological effect - if it got out before Monday morning.
- Eccles: Well, I don't personally know that it is necessary to discuss - certainly, this gold sterilization - I mean the release of the gold sterilization fund and this free gold. And if we call a full meeting of the Open Market, I can say to the members that we've been having some informal discussions with the Treasury in an effort to crystallize our views, their views and mine. And when the Committee meets, we will at least be prepared to tell you what their views are and I'll be able to tell you what my views are.
- H.M.Jr: What we will most likely do is to meet tomorrow night and finish the statement up, and we can show it to the President Saturday and get his O.K.
- Eccles: Need quite a while Saturday.
- H.M.Jr: But I mean we ought to have something. We can go to the President and tell him what you and I can agree on.
- Eccles: Oh yes. But I would prefer to - I would prefer not to do that until I have talked to the Board. There would be a certain resentment on their part if I say I'm committed and I've talked to the President. Then they - it puts them in a position where they might want to go along and back me, yet I haven't given them a chance to express their views. I think that it really would be better for me to not make a definite commitment to either you or the President, but merely say, "These are my views and this is the way it seems to me, but I would like the privilege of discussing this thing with the Board." Otherwise, you can see the position of the Board. It looks like you're trying to - "This is all set and you can take it or leave it."
- H.M.Jr: Well, that's the way it will be, and then you can do the rest.

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Eccles: Well, I know, but there's just no need of.....
When it comes to the open market operation, after
all they've got the responsibility of that thing
as much as I have, and they've got to be effective
in that responsibility. And there's times when I'm
glad more than one's got it.

H.M.Jr: Good night.

April 1, 1937

For the Secretary:

R. E. Reichert, former superintendent of banks in Michigan, and now president of a bank in Ann Arbor, Michigan, was in. His bank had to put up \$300,000 additional reserves to meet the March first increase; on March 15th their depositors withdrew \$200,000 to pay income taxes (heavier this year than usual, he says); they had to surrender substantial Government deposits on a call from the Treasury; and on May 1 they will have to furnish another \$300,000 to meet the additional increase in reserves effective on that date. Nearly a million dollars in a short period of time! His bank has been able to meet all of these payments ~~without~~ without selling any Government securities, but he knows that many country banks have been forced to seek the market to meet the same situation. He describes the situation as very similar to a "run on the bank".

During this period there has been some increase in loans in his bank, but nearly altogether to manufacturers who used the proceeds to pay dividends. He thinks that the increase in bank loans throughout the country, totaling a billion dollars, and cited sometimes as evidence of coming credit inflation, ~~is~~ is largely of this character, rather than truly commercial in character.

Mr. Reichert hopes that the Federal Reserve will cancel the rise in reserve requirements which is scheduled for May 1. He points out that the increase would not be ordered today if it had not been done already, and thinks that is evidence that it should be rescinded. He thinks the Federal Reserve should be courageous to recognize that

conditions have changed so since their announcement that the May 1 increase should be called off, even if it subjects them to some criticism as having gone too far in their previous action.

Mr. Reichert pointed out that there are steady withdrawals from country banks and city banks for the payment of insurance, which totals some millions a day in the aggregate, and that the insurance companies are not buying, but holding off until the market has "stabilized" a little more in the belief that they will do better on quotations. This adds to the bearishness of the Government bond market.

Customers are beginning to come in the bank to talk about the soundness of the banking system, a thing which has not happened before since the bank holiday days. Even if all the banks were able to weather the storm and had as good a bond position as his bank, which many do not, he feels that there is danger if the public begins to take the situation seriously enough to come in and discuss it.

Many banks are beginning to question whether membership in the Federal Reserve is worth while, Mr. Reichert feels. He is far from jittery, and he is friendly to both the Secretary and Chairman Eccles, and has commented frequently to me on the perfectly splendid job that he thinks the Administration has done so far as banking and fiscal matters are concerned. But he is disturbed now that there will be too much clamping down and much of the good canceled out.

Jack Riddle, economist for the Bankers Trust Company of New York City was in yesterday. He reports that country banks are steadily withdrawing their correspondent balances from New York City banks, causing New York City banks to sell their bonds. He seems to feel that there is a natural adjustment going on in the bond market and that higher interest rates are inevitable. He rather inclines to the view that we are more in danger of a slump than a boom, and I think would rather expect some measures to keep recovery going.

The executive vice president of the national bank in Iowa City, who is a director of the Federal Reserve Bank of Chicago, was almost hysterical ten days ago in his feeling about the Government bond market. I gather that his operation of their Government bond account has not been too conservative, and he is panicky. In the Chicago Reserve Bank and in the First National Bank of Chicago I learned that a good many country banks are in the same condition. Ned Brown of the First was not concerned about his own bond account, but was inclined to the view that the bond market would be upset until after the May 1 increase in reserve requirements. He pointed out, as did Reichert, that while the effectiveness of the increase of last summer can with the date of announcement, that has not been true this time, and there is still considerable doubt and uncertainty as to what will happen between now and May 1.

There is no doubt that many banks have been speculating in Government bonds, for appreciation, and that they have been

four

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using the profits for dividends, salary increases, and the like, rather than building up amortization reserves. To them, falling quotations for Governments are serious.

Upm

Copy to Chairman Eccles.

MEMORANDUM

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April 1, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Treasury bond market opened lower and active today, and prices declined rapidly until early this afternoon when a modest improvement occurred. At the close quotations were up $1/32$ to $10/32$ from the lows but losses from yesterday measured anywhere from $3/4$ of a point to $1 1/4$ points. The average decline on sales for the 19 issues of Treasury bonds was $27/32$. Total sales of government bonds on the board were \$6,344,000 against \$4,423,000 yesterday. In the guaranteed list the F.F.M.C. bonds were down about $1 1/2$ points, and the H.O.L.C. bonds were about $3/4$ of a point down. Treasury notes followed the rest of the market. Quotations firmed up after 2:00 o'clock and the list closed $10/32$ down from yesterday.

High grade domestic bonds including the recent refunding issues were off small fractions to around $1/2$ point, but certain issues showed somewhat larger declines. Generally speaking, offerings were not large but with the bids thin, the tone of the market was heavy. Philadelphia Electric 3s were quoted around closing time at $100 1/4$ - $100 1/2$. Second grade market was also lower, losses ranging from fractions of a point to about 1 point. This section of the market was fairly active in the last hour. The Panhandle Eastern Pipe Line 4s, which were brought out at $97 1/2$, were quoted $97 1/2$ - $97 3/4$ at the close.

Foreigns were quiet and mostly unchanged throughout the day. German bonds sold off fractionally; Japanese issues were slightly lower; Italian bonds gained fractions to 2 points.

Total purchases today \$9,648,000 miscellaneous Treasury bonds, all of which were for System account.

MEETING AT 2201 R STREET ON
SELECTIVE FEDERAL EXPENDITURES

April 1, 1937
 8:30 p.m.

Present:

Miss	Perkins
Admiral	Peoples
Mr.	Emerson Ross, WPA
Mr.	Arthur Burns, WPA
Mr.	Eccles
Mr.	McReynolds
Mr.	Haas
Mr.	Daggett
Mr.	Leon Henderson
Mr.	Goldenweiser
Mr.	Lubin
Mr.	Hopkins
Mr.	Gaston
Mr.	Gill, WPA
Mr.	Bean, Department of Agriculture
Mr.	Bell
Miss	Lonigan

Haas:

I think we can be very brief on the preliminary discussion of the subject. Secretary Morgenthau has been watching the developments in certain industries and prices and has noticed that certain prices have been mounting very rapidly and certain industries have orders from private sources that occupy them to capacity. The question has risen in his mind whether or not, with these large Government expenditures - whether or not they couldn't be made in such a way as would favorably affect the general economic situation.

For example, the steel industry, which is now running at capacity; and there has been a rise in steel prices. An examination of the expenditures indicates that a considerable volume of steel is being purchased by the Federal Government. For example, in one of the recent years - I think it was last year - the Federal expenditures in this industry alone amounted to what is equivalent to about 34% of the total business of the United States Steel Corporation. In the cement industry, the Government purchases amounted to somewhere around 80% of the total capacity of the cement industry. In structural and reinforced steel, it runs about 50%; in cast iron pipes and fittings, about a third; clay products and bricks, about a quarter of the industry's output is purchased by

the Government.

And with this problem in mind, I asked Mr. Daggett to outline some material which might serve as the basis of discussion for the whole problem, and we have some charts which present some information. I don't say it is at all conclusive, because many of the phases of the problem have to be studied very intensively.

It appears to us that not only would it be advantageous for the development of our economic development if purchases were made in accordance with certain economic criteria, but it almost seems imperative that this be done unless we get a very distorted economic recovery. As we view it, we believe that the purchases should be controlled by economic factors of three broad categories. The first is the question of the capacity at which the industry is running - the question of employment in that particular industry. Second, the question of the price structure in that particular industry. And then, of course, it would be very highly desirable that the project would be allocated regionally in correspondence to the location of the unemployed workers.

We have a few charts here which I think we can pass out and I will discuss them after we have them in your hands.

H.M.Jr: George, don't you want to say that anybody can interrupt you as you go along.

Haas: Yes, I thought I'd be through with the preliminary remarks very quickly. Several of the people here have copies of Mr. Daggett's memorandum, and I thought from that they might take up the discussion.

(Haas and Daggett pass out a set of charts.)

Haas: This chart is - Dr. Lubin could do a much better job than I can on this chart, because these are all his data. But we made it up merely to be illustrative of what I was discussing; that there are certain industries where the employment already is in excess of the level of 1929,

whereas there are other numerous industries that are much lower than the 1929 level.

You will notice in the left hand corner there is a sort of fan shaped chart, and the zero line there representing the average for the year 1929. Over at the extreme right is January, 1937, and you will be able to read the percentage increases above 1929 or below. On the top you will notice the steel industry is in the lead. And on the right, in connection with each one of those lines forming the fan, are bars which indicate the relative importance in terms of volume of the employment in the various industrial groups.

In a very rough fashion, it would seem, other things being equal, that expenditures should be placed in industries which are on the lower scale, provided that they form any considerable outlet for unemployed people.

I think, Mr. Secretary, if there is any discussion

H.M.Jr: Maybe Dr. Lubin would sort of like to expand on that.

Lubin: Mr. Haas has had some charts made for these individual industries which give the picture over a long period of time. They are duplicates of the charts we use at the office. I don't know whether this is too small for anybody to see or not.

Now this is a chart showing the situation in manufacturing industries as a whole. You can see that between 1924 and 1929 that heavy black line remained virtually unchanged. In other words, the manufacturing industries of the country didn't absorb any new workers, with the exception of that short period in 1929 when the index went up to 108. By and large, the employment remained more or less stationary, with of course the usual seasonal variations.

Now, the interesting thing is that the employment curve is back to that 1924-25 level. In other words, it is just about the average of the last decade - just slightly below, and the March

figures will show it pretty close to the average for the last decade.

Now, those same figures shown here are broken down there by individual industries, and you can see the significance of those individual colors that he has on his chart. Now this, for instance, is cement. The industry is today employing slightly more than half the number of people it did during the last decade, on the average. Here we have lumber and mill work.

- Gill: What are the two different lines?
- Lubin: The dotted and straight line is pay rolls, and the other line is employment.
- Perkins: The black line is employment.
- Lubin: These are reversed on this chart.
- Perkins: Oh, I see.
- Lubin: Now there again you see in the case of lumber mill work approximately 50% of the employment of the last decade. In saw mills, employment is approximately 44% of the average for the last decade. In brick, tile, terracotta, employment is about the same - about 45% of the last decade average. On the other hand, you also have structural iron work and ornamental iron work, which are used only in building construction, where employment is about 65% of the average.
- Peoples: Does that cover, Doctor, fabricated steel?
- Lubin: I-beams and structural steel that are used for building.
- Peoples: Not so much in the mills, but
- Lubin: In the finished product.
- Peoples: But in the fabricated
- Lubin: Oh, yes.
- Here are your steel and hot water heat apparatus and steam fittings; employment about 65% of the last decade.

Now in contrast to that are those industries which he has up on top. Here you have blast furnaces and rolling mills, employment up to 118, at a higher level than it was in 1929. And 1929 was only for a short time that it ever reached that height.

In this instance, we have iron and steel and their products, not including machinery. This other one was blast furnaces and rolling mills. These are the finished products, like angle-bars and car wheels. There again you will notice they are back to the early 1929 level.

This here is automobiles, with employment at a higher peak than ever reached in the history of the industry. Cotton goods, running at a higher rate than any point since 1927. Knit goods, at a higher rate than for any other time except a slight period in 1929, employing more people.

And back to the manufacturing. We could bring others; we have such things as wire work and pressed steel products, particularly the type used in refrigerators and things of that sort; enamel ware; all of those are at higher levels than they have ever been in the history of this country.

So you have the two groups of industries, one absorbing more than they formerly employed and primarily centering around transportation and transportation equipment; the other around housing and construction, which are the most depressed of the group. And as a matter of fact, as we were looking through all our 89 manufacturing industries, there isn't a single one not connected with those two, either the railroads and transportation group or the construction.

Bean: Have you on hand the production figures at the present moment for these different groups of industries?

Lubin: I don't - let's see, the index itself is what, 116? Dr. Goldenweiser, do you by any chance - Mr. Goldenweiser would know that better than I. Steel

- Goldenweiser: No, by industries I haven't got them in my head.
- Haas: 91% of capacity, I know that.
- Lubin: Which is in effect about 6% above optimum capacity.
- Goldenweiser: Must be about the same as 1929.
- Perkins: There are one or two industries, of course, in the consumers' goods that show a higher production and lower employment. There are one or two which have had a really marked technological change during the period of the depression. Tobacco is one, as we all know - way above on production and way below on employment, and we know there has been a complete machine program in there. And I think - don't you (Lubin) think that with what we know about the machinery tooling in the steel industries, it would indicate that before another two years is over we will begin to see a disparity between production and employment?
- Lubin: Of course, we have the interesting situation in steel - the situation I saw in Gary - where the Carnegie-Illinois people were employing more people and yet the manager of the plant told me that their problem as far as unemployment was concerned in the city was still very, very acute. And I asked him how to explain it, and he said, "We are employing high school boys, sons of these people we brought over in the '90's. We don't need them any more. With our new equipment and new technique, we want these younger people who have had more education and more background."
- Perkins: So there are more people actually employed, but the unemployment in that area is larger due to laid-off steel workers who don't get back, although there are more people working in steel in that area than ever before. The new retooling takes a different type of person, you see - better educated and younger.
- Lubin: Don't have to have the brawn that you had to have - more brain and less brawn.
- Bean: And less pay.

- Lubin: No, no, the pay is good for the youngsters.
- Perkins: The pay is very good, perhaps better than it was to father. They give a sort of preference to boys who have been through a technical high school, who got some mechanical training, and they pay them pretty well on the whole.
- Henderson: Well, the hourly rates are better but I think the weekly earnings are either the same or less.
- Lubin: At the Jones-Laughlin new plant, all of the journeymen that are being trained now are graduates of engineering colleges. They found they could get them and they preferred them.
- Perkins: And the old-time husky is out; he is on relief. Very interesting. His children are working.
- H.M.Jr: George, have you got some conclusion?
- Haas: I think Admiral Peoples might wish to discuss the question of relating purchasing to a given economic situation. He might have some ideas on the practical problems involved in it. In other words, we set up an economic pattern and say, "After very careful examination, we find it would be desirable to avoid purchases in certain industries," etc.; that immediately involves a very practical problem of handling that kind of policy if it were laid down.
- Peoples: Of course, the character of materials purchased by the Federal Government, particularly in connection with relief, depends entirely upon the character of the projects that are approved for which these men are worked. Now, according to these charts that Dr. Lubin has prepared, it is very obvious that lumber and cement and tile and brick industries are way below standard. The only way to help them would be to concentrate as far as possible in the approval of projects which will lend themselves to materials of that character, in connection with the work on the project.

If, on the other hand, cotton may be high, we can't stop the purchase of cotton because if we do that it will affect immediately these sewing room projects. If the sewing room projects are kept down, that will automatically cut down the quantities of cotton textiles that are purchased. The cotton industry here is apparently up to about standard, according to these charts. The Government has helped out tremendously the cotton industry in connection with the textiles that have been purchased for the sewing room projects. Over 265 millions of yards of textiles alone have been purchased for those 3600 different sewing room projects, for which 217,000 men and women are employed, which shows the effect of the use of these work relief funds.

So whatever may be done with regard to the question of materials depends entirely upon the character of the projects that are approved. It all hinges around that.

H.M.Jr: Up to now - Hopkins can say if I'm wrong - I don't think, as far as I know - I mean they have had plenty of other rules to try to fit the projects into, and I know it is extremely difficult as it is. But I mean up to now I don't think that they have had the time or the necessity to stop and think, "Well, if we are going to approve this project, into that project goes the material, on which either the price is too high or there is a shortage," etc., etc., and that is one of the things we are trying to raise here tonight.

Peoples: I think you are exactly right, Mr. Secretary.

H.M.Jr: Because I realize how difficult the job is. I'm not trying to make it more difficult. But on the other hand, I think we've got to come to that time in recovery when we've got to stop, look and listen, and I wouldn't be smart enough to go on record and say that we could carry this through. But at least I raise the question if we are taking 265,000,000 yards of cotton - I mean something else - should we continue? That's all we're trying to do tonight, is raise these questions and let you people say it's impractical or it's worth while raising.

- Perkins: What part of the general production would 265,000,000 yards be? Significant?
- Lubin: The value is \$38,000,000, wasn't it - the total value of textiles purchased by the Government?
- Peoples: In value, approximately that, Doctor.
- Lubin: Big item.
- Hopkins: One of the interesting things is - take lumber, which is at the bottom of this thing. If you take up the thesis that you deliberately want to push up the production of lumber, you've got tremendously high prices. And in several of these materials which are low apparently, it doesn't make any difference in price whether it is up at the top or down at the bottom. You see prices out of sight where you get a very high production, and then also you have prices out of sight when there is a low production, so we are up against that problem there.
- Take the building thing today, where you've got tremendously high prices. If you want to deliberately push it, you spend a lot of money because of the price structure.
- Eccles: I think you've got a particular condition in lumber that you don't have possibly in some of the others. You've had the shipping strike, which had a very disastrous effect on the lumber production on the coast for some time. We've had a good deal of labor trouble and a good many of the mills were shut down for substantial periods. They had an extremely severe winter, which has reduced very materially their output because it's impossible to get out the logs and timber when the weather is very bad, when they have heavy winters like they have had. So that you have there a combination of three factors: Strikes in the mills themselves, strikes in the water transportation, and a heavy winter.
- Now, so far as the capacity is concerned, they haven't reached anywhere near their capacity to produce. The lumber industry was so terribly

depressed over a long period that many of the mills were completely shut down through bankruptcy and receiverships and have been almost abandoned, and it is a question of taking an element of time to get them rehabilitated and started and built up again. And it won't be done - it can't be done of course until it becomes profitable to do it. It is now. I look to see the situation, so far as output is concerned - even though it increases very, very materially, I question very much if you can get any further price advances. The price of lumber at the present time averagely is very close to the 1928-29 figure at the mill.

Burns: The increase in price occurred long before the strikes and other difficulties, didn't it?

Eccles: No, the real price increase has occurred during the last six months.

Henderson: About 50% since the strike and 50% since June - of the increase.

Eccles: Yes. You've got a really big increase since - the last six months.

Hopkins: Does anybody know of the money the Government spends on goods - how many of them are monopolistically controlled like steel, and where the price is fixed, like copper? Do we spend tremendous sums of money where the monopolies control the price?

Peoples: Doctor, have you got that chart that I gave you today, which shows that out of the - during the last sixteen to seventeen months, since we really got started on the work relief purchasing, there's been a total of approximately about 704 millions of dollars purchased?

Hopkins: Does that include the whole Government - CCC, PWA

Peoples: No, no. WPA only.

Hopkins: Have you got any figure for the whole Government?

- Peoples: Well, Dr. Lubin has it.
- Haas: Here is a summary table. Should I read it?
- Peoples: Complete analysis by commodities.
- Hopkins: Our purchases wouldn't be as typical compared to the - some of the other Government purchases get into the heavy stuff far more than we would be in it.
- Peoples: No, oh no, except the Navy.
- Hopkins: Oh, reclamation - these big dams; RFC, to some extent, through their loans to bridges. RFC is talking about making a new loan to a big bridge now in New York.
- Peoples: The Navy has been a very heavy purchaser of steel, particularly during the last three years, during their shipbuilding program - probably up to 250,000 tons of steel alone on the Navy account. Not so much PWA, Harry. PWA would be heavier, it is true. The Army is a great factor in there, for shells, etc.
- Lubin: Harry, you people - that is your projects last year, December 15th to December 15th, aggregated in expenditures for materials \$419,000,000.
- Hopkins: Federal expenditures?
- Lubin: Those are for Federal construction and projects operated by the WPA.
- Hopkins: That includes' sponsors as well as Federal.
- Lubin: Yes. And the regular Governmental was \$172,000,000 on construction.
- Perkins: Mr. Hopkins asked if anybody could estimate the extent to which those purchases were made in fields which we know are monopolistically controlled.
- Lubin: About a third I should say. 304 millions were in cement, stone, clay and glass, which are fairly competitive, with the exception of cement.
- Henderson: Glass isn't.
- Hopkins: Cement is a big item and that is monopolistically controlled.

- Lubin: Only a million six hundred dollars on glass. Cement was \$99,000,000.
- Henderson: You don't suppose Mellon would be in a competitive industry.
- Lubin: Iron and steel
- Henderson: Just before you go on, you've got regional monopolies in stone, crushed stone, gravel, and all those things.
- Lubin: You've got a quarter of a billion, 255 millions, in iron and steel and their products.
- Eccles: How much?
- Lubin: Quarter of a billion.
- Eccles: This last year?
- Lubin: Yes. This is purchases for construction purposes only.
- Henderson: Page four of the memo.
- Lubin: Then you've got forest products, 83 million; that includes lumber. Textiles, 21 million; chemicals and like products, 17 million; non-porous metals, 8 million; motor vehicles, railway cars and other transportation, 56 million; and the balance is made up of a hundred different items aggregating \$176,000,000. The big items are stone, clay, cement and glass, and iron and steel - and machinery.
- Eccles: You haven't reached capacity though in cement and stone.
- Lubin: They're running about 60%.
- Eccles: Steel is.
- Lubin: In 1935, the United States Government bought more than 50% of the total production of cement in the United States.
- Peoples: 67% I believe.

- Hopkins: Has there been an increase in the cost of cement?
- Henderson: No.
- H.M.Jr: It's interesting.
(to Miss Perkins).
- Perkins: 67%!
- Bean: Total production is low, that's all; that's what that means.
- Ross: I have here a distribution of materials purchased under WPA by type of project which is fairly interesting. Let me take Mr. Haas' chart. Evidently you would concentrate on public buildings, housings and recreational facilities - community houses. For example, 50% of all material purchased on public buildings was lumber, somewhat over 10% on housing was lumber, and about 10% on those recreational facilities are lumber. On the other hand, another one of his depressed industries is stone, clay and glass, which would mean highway, road and street work rather than the other. The crushed stone, sand and gravel together here total about 23% of all material purchased for highways, road and street jobs. The other types of projects are less important than those categories. But when you get into projects like the Williamsburg project you have the problem that Secretary Morgenthau pointed out of the employment of women and white collar people, which possibly might overweigh some of these other considerations.
- Lubin: You people spent 13 million dollars on lumber last year.
- Hopkins: In other words, is it a fair assumption from this that it would be to the interest of our whole economic picture if we pushed our building program in terms of wooden buildings?
- Peoples: Yes.
- Eccles: What's that, Harry?
- Hopkins: If we pushed our building program in terms of wooden buildings requiring large amounts of lumber.
- Eccles: Well, labor is a very important item, I think, and of course your whole trouble is today that your whole housing - it is likely to slow it up even at the present cost. Your labor costs today are

practically 50% more than they were in 1929. That is, your labor - they've got a forty hour week and they had a forty eight hour week then. So you've got practically

- Hopkins: Well how important is that in the whole cost of lumber?
- Eccles: Well it's a big item. Labor is a very big item in lumber. It is by far the biggest item. That is, you take in the question of logging; there is some mechanization but it isn't very great, and there isn't very far they can go. The labor item is the big element, and you won't get lumber down with the increased labor cost in lumber.
- Hopkins: What is the relation between the output and sale of lumber to the number of carpenters working? That is, is there any relation of the output of lumber to the employment of carpenters?
- Lubin: I don't know frankly.
- Perkins: There is relatively a dearth of carpenters now.
- Hopkins: Well, that may be for - but I'm speaking of the number of carpenters employed in 1929. Are there as many carpenters employed today?
- Lubin: There aren't as many carpenters.
- Eccles: No, not as many.
- Hopkins: Obviously if you are going to shoot up the production of lumber you have to have a great many more carpenters. We could find ways of using carpenters; that is not a serious problem with us, in certain parts of the country especially.
- Eccles: You can get carpenters, but when you've got carpenters you've got the question of plasterers and bricklayers, plumbers.
- Hopkins: We've got about 120,000 of them now that are showing no signs of getting work in private industry. Part of it is their age; a great deal of it is their age.
- Eccles: Well, the serious thing is.....
- Hopkins: The thing I'd like to clear up here in my mind now

is what end of the Government buys the steel? There is 250 million dollars as I understand. Now who does that? Who buys that? We don't buy it. We don't buy any substantial amount of that.

- Peoples: Not for WPA. What is that total of steel on that chart?
- Daggett: I'm sorry, I don't seem to have brought the chart.
- Lubin: Iron and steel, total purchase of 254 million; 88 million bought by WPA - or 85 million.
- Peoples: 85 million.
- Lubin: 130 million by the PWA. Of that amount, 17 million was cast iron pipe and fittings; 14 million was structural and reinforced steel - no, wait a minute, 33 million was structural and reinforced steel.
- Henderson: That 19 million is other Federal construction.
- Lubin: It's part of WPA.
- Ross: You've got something else in there, because we only spent 12 million on structural.
- Lubin: 14 million for projects operated by WPA and 19 million 4 hundred thousand for the Works program construction.
- Hopkins: The thing I'm getting at is that the whole WPA program may only spend 14 or 15 million of this whole 250 million dollars for steel.
- Peoples: What's that total for steel for WPA?
- Lubin: 14, for projects operated by WPA and 19 for Federal construction under the Works program.
- Henderson: The total of iron and steel under this classification for the WPA is about 52 million and for the other part of the Works program 33 million.
- Hopkins: Where is the rest of it?
- Lubin: 130 million for the PWA, 5 million for RFC, and 32 million for regular Government construction.
- Eccles: That includes the Navy?
- Lubin: Yes.

- Eccles: You see, your Navy and your Public Works is a big item.
- Hopkins: The Navy isn't much there; it's Public Works that's the big item there. I'm surprised the Navy is so small.
- Peoples: So then, if I understand that steel figure for WPA - about what was it, 14 million?
- Ross: 14 million for the structural and reinforced.
- Lubin: 17 for cast iron, pipe and fitting.
- Peoples: You see, that's not so much, Mr. Secretary, out of a total of 400 million.
- H.M. Jr: But some place where all of your purchases would have to sort of clear - I mean some Central Board - or war industries board. What? I mean like your old war industries board.
- Perkins: Except that there are so many factors entering into it. If the public policy is to build a big navy, there's got to be steel purchased. Economically it's unsound, but
- H.M. Jr: But there is no reason to approve any more bridges or tunnels which are all steel. I mean in view of what this shows, I'd say one of the easiest things to say is, there would be no more big bridges.
- Hopkins: For instance, today I happen to know that there is a bridge proposal for a new bridge in New York City, where they don't want any grant but they want to borrow the money from the Federal Government, which raises the question of whether the Federal Government should encourage that by making the loan. Let them go to the banks and get their money. They can get it anyway, but we shouldn't encourage them with Government funds.
- H.M. Jr: I'd say, in view of the figures we have here tonight - I'd say no more bridges. I mean I think I'd.....
- Eccles: Of course, they can go out on their own accord and do it.
- H.M. Jr: Oh sure.
- Eccles: But as far as the Government stimulating that sort

of thing, it ought to shut down.

- H.M.Jr: Well, our boys set up three things - it looked to them, in view of these figures, that you might say that three kinds of projects could go ahead. I remember you (Daggett) said
- Daggett: Flood relief, rods, and small houses of wood and brick. That's light construction.
- Eccles: Doesn't involve much construction.
- H.M.Jr: Light construction - wood and brick.
- Peoples: Or any building can be built of reinforced concrete.
- Perkins: That takes a good deal of lumber too.
- Peoples: Your Printing and Engraving building has no steel frame.
- Perkins: Oh, hasn't it?
- Peoples: No, all concrete.
- H.M.Jr: Aren't we spending almost as much today - how do the figures compare that we are spending today for construction as against what we did during the War?
- Peoples: For construction, Sir?
- H.M.Jr: Well, for material.
- Peoples: Oh.
- H.M.Jr: Construction material.
- Peoples: Well now, let me see, the Navy figures during the War amounted to about 3 billion 6; that was the total. Out of that, about pretty close to 2 billion or in the neighborhood was for material, most of which was steel in one form or other - ship steel or shells or construction. Now the Army figures were very much higher than that; I don't recall what they were. But I don't think today we are up to what the War figure was, Mr. Secretary.
- H.M.Jr: I don't suppose we are.
- Peoples: No, sir.

- H.M. Jr: But they had a War Industries Board which considered all purchases and through which all purchases cleared.
- Bell: That's war materials, Mr. Secretary.
- H.M. Jr: Yes.
- Bell: Supplies for the Army and Navy.
- Perkins: And it was largely to regulate prices; that was the idea. I mean there was no intention of either limiting or repressing certain types of production.
- Eccles: But at that time all private construction was discouraged.
- Peoples: And in fact shut down almost completely. All public building construction was absolutely shut down.
- Eccles: That's right, and private construction had to get permits.
- Peoples: Private construction had to receive permits before they could go ahead; not only private construction, but private replacements of all buildings. Even for car wheels and things of that kind, for street cars, they had to get a permit in each and every case before they could go ahead, because the whole thing was under absolute control, like this, between industry and the Army and the Navy.
- Hopkins: Mr. Secretary, have you got price figures for these same items - the price trend?
- H.M. Jr: Have you, George?
- Haas: Mr. Lubin has them.
- Lubin: Page 19.
- Haas: I can read them off Mr. Secretary. Building material group, brick and tile - these figures I am quoting are percentages of the 1929 average, so you can get some idea, using that as your norm if you want to.
- Eccles: Is this the wholesale price?
- Haas: These are Bureau of Labor statistic figures. Are

they wholesale price?

- Lubin: Yes.
- Haas: Brick and tile is 96½% against 1929; cement, 104%; lumber, 105%.
- Eccles: Cement?
- Haas: That's right. Lumber, 105; paint materials, 88; plumbing and heating, 82; structural steel, 107; house furnishings, 94%. The metal and metal products group; agricultural implements, 94%; iron and steel, 97; motor vehicles, 87; non-porous metals, 84. Textiles and clothing, that group. Now, clothing under that, 94%; cotton goods 92; silk and rayon, 42; woolen and worsted, 105; boots and shoes, 95. And miscellaneous: hides and skin, 102; bituminous coal, 106; petroleum products, 83.
- Lubin: George, I wish you would read that in the preceding column that shows them how these figures fit in with the general price levels.
- Haas: Oh, yes. Assuming the all-commodity index as a hundred so you can have a picture of whether or not these particular prices are above or below the index, the general index, we have, brick and tile, 105%; cement, 110; lumber, 114; paint materials, 97; plumbing and heating, 89; structural steel, 121; house furnishings 102; agricultural implements, 108; iron and steel, 106; motor vehicles, 108; non-porous metals, 104; clothing, 98; cotton goods, 106; silk and rayon, 39; woolen and worsted, 107; boots and shoes, 117; hides and skins, 133; bituminous coal, 112; petroleum products, 68.
- Ross: Where would foods and rents be relative to the all-commodity index?
- Burns: Food is just above the all-commodity index, I believe.
- Ross: What is it that averages these down?
- Burns: A lot of industrials below it.
- Ross: That's consumption goods. What's holding food prices down?
- Haas: What's holding the index?

- Perkins: What's holding the cost of living index down?
- Lubin: First, your food prices, and second, certain other agricultural materials; and third, a large number of the manufactured products that have'nt yet caught up. Now take clothing for example; you have it down here to 97.6. That would be away above a hundred when all quotations are out on men's clothing. The price would be up about 15%. Compared to other prices, it is still down 4 points.
- Ross: Which indicates that you should be paying a higher percentage for labor relative to materials at this point in the game?
- Lubin: Not necessarily. You find in this group a large number of the controlled price group commodities.
- Ross: In the material field.
- Lubin: Pardon me?.
- Ross: In the material field.
- Lubin: And finished products.
- Ross: Well, your consumption of goods is below, though, the average.
- Lubin: (Nods yes.)
- Perkins: Where were rents in the general picture?
- Lubin: Of course, we have no wholesale price on rents. The rent index now is approximately 15% below the 1939 level.
- Eccles: Is that current leases made or is that the current rent based upon existing leases?
- Lubin: Based upon existing leases; in other words, inhabited houses.
- Eccles: But if you took today's rentals based upon the rents that are contracted for now, they would be considerably higher.
- Lubin: They would be up 4%. The figures for the March collection period show about 1% increase since January, but that is averaged - the new rentals and the old. Of course, the wage earner who doesn't move, who is willing to stay without renovation

doesn't get the increase in rentals that he would have to pay if he moved into a new place or into another house.

H.M. Jr: I don't know how much time you people have got, but we've got another aspect of this thing that I'd like to have them show you. I don't want to hurry anybody, but I don't want to have anybody feel we're keeping them from going.

Peoples: Well, Mr. Secretary - just a moment, Sir - I think these charts and this discussion show that every effort should be made to help lumber, mill-work, cement, brick, tile and terra cotta, structural and ornamental metal work,

Gill: Regardless of price?

Peoples:Steam and hot water heating. Huh?

Gill: Regardless of price?

Perkins: The prices are preposterous.

Gill: I think that is as important as the production and the employment. Furthermore, I am not so sure that the Government should stimulate industries with low employment necessarily, because it might be that the Government would be keeping industries alive that shouldn't be kept alive, and should really be stimulating new industries for the future.

Peoples: Well, these are basic industries, Corry.

Gill: They have been basic, yes.

Peoples: But when it comes to the heavy steel work, it is well to put some sand on the track.

Gill: I agree with you there.

(Daggett passes out another set of charts, entitled - "Federal Emergency Expenditure and Business Recovery")

Haas: Another aspect of the problem, as we have viewed it, is this: That in addition to selecting the projects which conform to the economic situation in various industries, it is a question of locating the projects where the need is, where the unemployed are. This map and chart combination which we have here is merely - it is merely suggestion. We have taken such data as we have and placed along with it the total Federal expenditure. We have it for

the total of the United States. And then, rather than taking it up for each state, we took it up for certain geographical areas in the United States. And in the center you will notice the curve, the solid black line, labeled "Expenditures"; those are total Federal Expenditures. Along with that, we put automobile registration and bank debits. Bank debits is - there is some question in the fluctuation of that - exactly what it means; but in the general run of affairs it does increase as business activity in various regions increases. Automobile registration seems to me to be an even clearer indication of increased purchasing powers, whether for the United States as a whole or for a particular region. You will notice the expenditure curve, with some irregularity, continues to increase along with automobile registrations. It would appear that at some date the expenditure curve - one would reasonably expect that to decline.

Now, in certain of the areas, you will find that very sharp differentiation between the business curve and the expenditures. In the mountain States you will notice, down in the right hand corner, that automobile registration mounts very sharply, but expenditures much more sharply. I think that is explainable probably by some of those large projects in the thinly populated area like Boulder Dam.

- Gill: George, may I interrupt to ask what these emergency expenditures consist of?
- Hass: Where's Dan?
- Gill: I mean reclamation, PWA, WPA, CCC?
- Bell: All of the construction work and PWA. FERA, WPA, PWA, CCC, Park and Reclamation Works - all emergency work.
- H.M. Jr: An agricultural payments.
- Bell: Yes.
- H.M. Jr: And agricultural payments - benefit payments.
- Eccles: That is, other than the maintenance of the regular departments of Government.
- H.M. Jr: That's right.

- Bell: That is, other than the operating agencies. It does take in the regular construction work like rivers, harbors, reclamation, and public buildings.
- Eccles: Yes, but I mean it doesn't take into account the amount of Government expenditure for the operation of the Treasury's regular departments for instance - for instance the Bureau of Internal Revenue.
- Bell: It does not take in that.
- H.M. Jr: Show him page 22; that's my favorite page. It's got the dollars.
- Bell: Corry, they represent the Emergency Conservation Works, Public Highways, Rivers and Harbors, Public Buildings, Reclamation Projects, PWA, WPA, Agricultural Payments, Resettlement Administration, TVA, FERA, and miscellaneous others.
- Gill: Uh-huh - Well, the importance is that in these mountain States it is the reclamation particularly that throws that thing way out of balance.
- Perkins: In that area.
- Gill: Yes:
- Perkins: It has nothing whatever to do with recovery.
- Gill: And not anything to do with relief.
- Perkins: That is a program based upon the necessity of the particular state, the particular area - has nothing to do with either the recovery or relief program.
- H.M. Jr: Nor, if I may say, how good a senator they've got.
- Perkins: But I mean from the economic point of view they throw the whole program off.
- Eccles: There are certain expenditures, for instance, with reference to a project which involves a large expenditure in an area. But then, you take for instance Boulder Dam; now the amount of steel products and other products gave a lot of employment to transportation and to steel mills and a good many places outside. That, as compared with, for instance, PWA - the money that they spent there really was spent within the area. But that may not be true of a battleship, for instance, which may be built in some particular section, whereas,

the greater part of the expenditures are really spent somewhere else.

- McReynolds: Well, your Naval construction isn't in here.
- Eccles: No, but maybe some sort of a project of that sort. Well, the TVA, for instance; it may be all chargeable to that particular area, but the great part of that money was not spent in there. It involves purchases of motors from General Electric and Westinghouse and Allis-Chalmers, and was really spent in other places.
- Bean: To what extent are the peaks in the West North Central and West South Central shown for the season 34-35 the result of the drought relief expenditures in those territories?
- Haas: I suspect some of those erratic movements are the result of those expenditures, but I don't know without checking up the figures.
- Daggett: I don't know exactly. I think a large element of drought relief is in those figures.
- Hopkins: Is triple A in here, Dan?
- Gill: Yes.
- Bell: Agricultural expenditures, yes.
- Perkins: But not the triple A.
- Bell: Yes, triple A is in here.
- Bean: But that increase for 1934-35 in that territory, I think, is related to the drought program - the result of the 1934 drought - and in a way it didn't represent an increase of purchasing power for the territory. It really was an offset to some extent for the condition created by the drought.
- Peoples: What proportion was spent in the mountain area as compared to the total expenditure?
- Bell: I don't know.
(Secretary leaves room and returns).
- H.M. Jr: All right, George.
- Haas: On all these regional comparisons, I have pointed

out that this chart is merely suggestion, that it does point the way for a more intensive study of the particular situation in different areas. These curves which we have taken - for instance, automobile registrations and bank debits - in certain areas do raise serious questions which I think should be answered. The center one which shows total expenditures of all these items by the Federal Government, continues to mount almost as sharply as the very sharp improvement in business, indicated by automobile registration. I think that raises a serious question as to the continuation of that expenditure curve and its relation to recovery.

- Been: I don't know that I got your point, Mr. Haas - your last point.
- Haas: In other words, you must come to a point where expenditures would have to decline. In other words, they shouldn't keep abreast with a curve of business recovery. In other words, if we do where are we going to come out in our fiscal policy?
- Eccles: You've got a point, in other words, where your bank debits and your automobile registrations, which are a reflection of private expenditures or self-generating recovery - where they pass your line of public expenditures.
- Haas: That's right.
- Eccles: Now, in this chart here you notice they did pass the line here. Public expenditures went along here until the end of '35 almost straight, didn't they? They passed the line there, but public expenditures turned up nationally just about as sharply as bank debits and private expenditures - that is, expenditures for automobiles, automobile registration. So they are going up together. That's all right for a time, but you're getting to a place now, with private expenditures increasing - bank debits - and public expenditures keeping pace with it, where you do develop an inflationary trend pretty rapidly. And you've got to do some selective public spending, it seems to me - just the thing you are discussing here - so as to begin to level out this public expenditure here, but level it out in an intelligent manner, so that the public expenditure is done in such a way as to do the most good, and as to go to the really, truly unemployed people who are unable to get jobs in private industry, and not go

toward making for a more acute shortage among skilled labor, the people who have skills, where shortages may be developing, and stimulate further purchases of those goods where we have almost reached the capacity or have reached capacity of production. It is a selective job.

Hopkins: Don't these figures rather indicate - I don't know what those total figures are there in dollars, but I judge they are something over three billion dollars in expenditures there. Of that total, three billion dollars, 250 million dollars is used on steel and perhaps another 150 million on things that are up here, that are moving too fast. That is, of the total expenditure here, not a great deal of it can be related to other than that 250 million dollar steel item.

Eccles: It isn't so much what has happened, it seems to me. It's not taking the year as a whole, because there is no question but what for the first six months of 1936 you weren't feeling the immediate effect of price advances, rapid price advances, in most of these industries; they were going along pretty steadily, generally speaking. The real advances have just come the very last - the last part of '36 and even in the beginning of '37. So that I say it isn't so much what has happened up to the present time, but it is what is very likely to happen unless we immediately begin to face this problem, because it is a self-accelerating thing and it works awfully fast.

Goldenweiser: It seems to me that part of the problem is where you start from. I mean expenditures may go up as fast as - or business may be going up as fast as Government expenditures and you still may not catch up with it. Your Government expenditures may keep on going up and you will never catch up. I mean you have to have - from this point you've got to proceed to a much closer analysis of the problem, because there are many industries where you may be up to what you were in 1929 in production and yet not be there in employment, and you may be up in employment in all the industries and still get seven million unemployed.

Ross: That's right.

Haas: Of course, you want your production to go up balanced.

Hopkins:

George, I think this is - I don't want to get in this fight, but I think it is interesting. Here are some figures showing total Government expenditures in these emergency fields by years, and with these two main headings: "Payments Primarily to Persons," and "Payments Chiefly for Non-labor Cost." We have a division of the total expenditure on those two general headings. For instance, it shows a continuous increase in the percentage of the total amount that is going to persons rather than to non-labor cost. On the other hand, the non-labor cost in 1937 is just about the same as it was in 1936 - of the total Government expenditures - and very substantially higher than it was in '34 and '35, the very times when we ought to have been pushing non-labor cost, buying goods and materials. In 1936 the Government bought a little more than they did in 1937. It's about the same in '37 as it was in '36.

Bean:

Do you mind reading those figures off, Mr. Hopkins?

Hopkins:

Yes. 1934, total two billion six. Payments primarily to persons, a billion five. These are round figures. Payments chiefly for non-labor cost, a billion a hundred twenty million. In 1935, the total was three billion four hundred forty-five. Payments for persons, a billion eight thirty-five. Payments chiefly for non-labor, a billion six. In 1936, three billion one ninety-seven. Payments to persons, one billion eight hundred eighty-four. Payments to non-labor, about a billion eight. And in 1937, a total of about four billion. Payments to persons, two billion two hundred thirty-eight. Payments for non-labor cost, a billion seven hundred fifty-nine, which is about the same as 1936.

Now, those aren't - those include budgetary items as well as emergency expenditures.

Goldenweiser:

But doesn't the non-labor include labor indirectly to a very large extent?

- Hopkins: Sure, that is always a moot question. But that gets into, it seems to me, the argument here of Government spending. It seems to me the argument has been made, and I think properly made, that Government, if it should spend, should spend in certain directions, in certain ways. And one of the ways I think everybody would agree upon is that we should cut down on buying steel. Now, from steel, which is the obvious case, you move down to other types of things.
- Now obviously, if we are going to spend \$4,000,000, there are ways to spend that that I think favorably affect our economic structure.
- Eccles: Keep our structure better balanced, that's right.
- Hopkins: And buying steel tends to unbalance it. So I think these general figures are important as to the way we are spending. Now, the tendency is to increase the percentage being spent for persons. On the other hand, the total here, showing that our non-labor costs went up continuously The funny thing is that in 1934 we spent a billion one twenty-one and in 1937 we will spend six hundred million more at the very time when Government spending ought to be out of the thing from that point of view.
- Eccles: We should have been doing housing and the use of steel and building materials and skilled labor in '34.
- Lonigan: Do those include regular Governmental construction work, war expenditures, etc.? What is your dividing line on those?
- Hopkins: Yes, this includes budgetary items, construction and all emergency expenditures.
- I'd like to ask George - what criteria do you use and do you think of at any rate when you say that at some point Government expenditures should go down? Do you relate that to the

national income? What do you relate that to? Do you relate it to the fact that spending Government funds may be a way of redistributing the national income better than it was ever distributed before, that if this money is going to persons, in effect, that constitutes a redistribution of the national income? And it may be that this two billion four hundred million going to persons this way - that this is the best trick that anybody has yet devised for getting a fair distribution of the national income, and it may be that instead of that going down we ought to encourage it to go up some more.

H.M.Jr: Well, as I understand it

Haas: I'll answer that quickly.

H.M.Jr: He'll answer that quickly before Marriner and I get to it.

Haas: You can't keep your public expenditures going up if you're going to borrow it. If you have a tax structure that takes it out of one place and puts it in another, that is different.

Hopkins: Yes, I agree with you on your talking about an unbalanced budget.

H.M.Jr: Well, Mr. Bean heard what I said - "It's all right if you can collect it."

Eccles: You have two factors. You have first the factor of balancing the budget at some point where you build up your supply - your means of payment through other than deficit financing.

But you also have another factor, Harry, that seems to me to be very important. The question of Government expenditures - I don't mean the Government collection of funds, that portion going to retire the debt, but I am merely thinking of the Government increasing its collections and using those funds to distribute the income by spending it, see? We have accumulated a huge backlog of need for producers' goods. If you are going to have an increased standard of living, together with an increased population, that means more

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consumers' goods all the time. Now before you can produce those consumers' goods, you get to a certain point where you've got to get an expansion of capital goods. That means more expansion of plants; that means more skilled labor; that means more machinery; that means an improvement of your transportation. And it means also a big improvement and a big expansion in housing to get up to the backlog.

Now that all, after all, has to be done by labor, so that labor has got to produce, in the final analysis, not only the consumers' goods but the capital goods that are used to produce your consumers' goods. And you've got to save as a nation, individually, and through corporations, a sufficient amount to pay for these capital goods. To the extent that you collect it and spend it in consumers' goods, you are going to get an unbalance. I mean after all you can get such a thing as an unbalance between the amount of consumers' goods - just as we did once before, when we got producers' goods out of balance with consumer buying power, we can get consumer buying power so great that we haven't got capital goods to produce it without a runaway price picture. I mean it is just as possible to get unbalanced on one side as it is on the other side.

Ross: Yes, but how do you get capital goods expanded except by the profit motive, which is in turn actuated by the demand for consumers' goods?

Eccles: That's right, but I'm speaking of getting consumers' goods in terms of utilizing your facilities, and after all you've got to expand those facilities to keep your supply of consumers' goods. It's that part of the production of labor that isn't consumed that makes possible the expansion of capital goods.

Hopkins: What I'd like to hear George discuss is this. Assume you weren't talking about a balanced budget and that we had a balanced Federal budget today, right now. Do you still make your point that Federal expenditures, in the interest of

our economic situation, should be stopped at some point from increasing further?

Haas: No, I think in that case it would depend upon what economic philosophy the Administration wanted to embark upon.

Eccles: Well, I don't say that expenditures necessarily need to come down. I think after all if you get a national income here of eighty, or ninety, or a hundred billion, that we can well afford it if the need exists for the public expenditures, and if we still have a sufficient surplus left over to begin to retire public debt as private debt expands. I think that we just can't arbitrarily say that we need to decrease public expenditure. What we are primarily interested in is to increase national income, and if national income is increased through maintaining a balance and utilizing our facilities, we collect adequate taxes - we may even collect more than we are collecting now.

Hopkins: But, Marriner, realistically in terms of the budget this year, where you've got an unbalance, and you say it is desirable to get to a balanced budget, you've got in here certain expenditures, Federal expenditures, which I think all of us would admit are undesirable in the light of the present economic situation.

Eccles: They are the ones that ought to be cut.

Hopkins: Yes.

Eccles: That's right.

Hopkins: And the question is can you cut those? On the one hand, suppose you could lop off 400 million out of this billion dollar purchase that Lubin talked about which we made last year. Suppose you lopped that off and you put it in Navy expenditure.

Eccles: Doesn't help at all.

Hopkins: Your economic picture is just the same, isn't it?

Eccles: It's worse.

- Hopkins: What I think the Treasury would be interested in knowing is whether out of that billion dollars that was purchased last year in goods - what part of that is really not to the interest of our present economic picture for the Government to spend or loan? Or whether they loan it or give it away - either way. Is there \$400,000,000 of that billion dollars that we spent for materials last year or in the year 1937 that we shouldn't spend in the year beginning July 1st, and what are the items?
- Lonigan: There is one other factor in that that might be considered, and that is so many of these projects that require steel are going to have to be continued. The Government isn't going to have much choice about some of them, because the commitments are made. So that actually the prohibition on further purchases of a few of those items at the top of the list becomes that much more serious, because it can't be complete.
- Hopkins: Well, what is the amount of these heavy purchases that we are going to have - on which there are commitments in the years '37 and '38, such as Boulder Dam and that sort of thing?
- H.M.Jr: Well, there is all these - you take the 53 housing projects that Mr. Ickes has.
- Hopkins: You mean that money hasn't been spent yet?
- H.M.Jr: He's got \$136,000,000 in that item and is a third of it spent?
- Bell: Well, a little over a third. I think he has about 60 or 70 million dollars yet.
- Perkins: But they are started and have to be completed; else it is a loss.
- Hopkins: In other words, we may spend more next year than we did this year.
- H.M.Jr: No question about it. You take Resettlement; they are down from March 1st to June 30th this year to spend a hundred million dollars, and that is

Hopkins: A lot of that is building.

H.M.Jr: Pardon me?

Hopkins: A lot of that is building.

H.M.Jr: A lot of that is building, and the only way you can catch this thing is if very soon, that - for instance, instead of these things coming over in a little book to the President and he thinks in terms of location, why, he has these other factors or has a group which would go through these projects and make them clear certain hurdles, which they have never had to clear before. Now, I realize you can have so many that you won't get anything. That isn't what we are thinking about. We are not trying to get anything except to lay some things down. But there are commitments, as I say, from March 1st to June 30th. Our estimates show that all these agencies will spend another billion and a half. Now you can't stop that billion and a half from March 1st to June 30th; that's going to be spent. And we're still spending the three billion three.

Lonigan: We're still spending RFC' money.

H.M.Jr: And we're still spending RFC money.

Hopkins: Do you put loans, for instance, for the RFC in the same category with the rest of this?

Bell: No.

Hopkins: But would you in terms of the economic picture?

Perkins: That doesn't enter into the picture of the budget.

Eccles: Well, it does in a way. It does in a very direct way, because it means the Government borrows to get the money to make the loans. It gets into the deficit picture.

Perkins: Yes, but I mean it doesn't create a deficit. We don't carry that as a deficit, do we?

Eccles: Well, we've got to go to the money market to get the money. They have assets that would likely

cover the amounts of the loans.

- Perkins: And it's hardly fair to put that in, because the money is loaned against good assets.
- Bell: You stop them making loans of that character and your revenue will be larger. Your budget will be benefited by that.
- H.M.Jr: Of course, if you're in a war and the war is over and then you stop and you cancel contracts, etc., which of course you do But at this stage, you've got commitments and you've got to complete those commitments; but the first thing you know, you're going to keep up those commitments. I mean you've got to start somewhere and stop making more commitments and let the others run off. Now, if you start to deal with the problem now, the thing will automatically work itself out in an orderly way. We haven't got to a point yet where I think we are in any real danger, but unless we do stop making these commitments, unless they fit into a national picture, we can very readily get into a pretty disorganized picture of prices and employment and inflation.
- Hopkins: What I'd like to do is to have some one discuss briefly the relation of Government expenditures to prices and something about this whole price picture as they see it now.
- H.M.Jr: Well, would you mind waiting a few minutes, because we've got a couple more things, and then would you ask those questions?
- Hopkins: Yes.
- H.M.Jr: We'll run through this whole program and then Mr. Hopkins has something definite he wants to ask.
- Haas: I think this might be the last one.
- H.M.Jr: No, no, that other chart - that and one more. I don't want to miss the other one, because Hopkins came here

Hopkins: The one that's got the dollars on it.

H.M.Jr: Yes, sir!

Lubin: That one has got dollars.

H.M.Jr: Well, you've changed it since I've seen it. I mean it had red figures on it.

Haas: They wanted to photograph this, so they left it black. But I don't think this is the one.

H.M.Jr: I mean the one that showed total relief expenditures in connection with unemployment and agricultural employment.

Haas: Oh, I get it.

H.M.Jr: Because Mr. Hopkins came here - he's going to be terribly disappointed if you don't point a finger at him.

Hopkins: Finger or figure?

H.M.Jr: Either. I mean Gill has just been sitting on the edge waiting for a scrap here.

Gill: Been on the verge of it.

H.M.Jr: Terribly disappointed.

Haas: Now give the Secretary this one. I can use the black and white.

H.M.Jr: That's the one. I don't know what the other one was that you had.

Haas: The other one is a different one that we may get to later.

H.M.Jr: If you don't mind, Harry, we're going through this.

Hopkins: I'd like to very much.

Haas: This chart is very similar to the previous one, except that along with the expenditure curve we have put in two other curves. One is called, "Farm Labor Supply." Mr. Bean can explain what that is. That is a figure of the Department

of Agriculture. By means of a questionnaire, I understand - the sample method - reports are obtained from all sections of the United States. The questionnaires ask the farmer what per cent of the normal his labor supply is and what per cent of the normal the demand for farm labor is, and then they take the ratio of one to the other. It happens that the curve is quite significant. Some ten years back or so, I experimented with it. And it is, you will notice, by regions, if you examine it. Along with some other indices, it seems to conform with that unemployment situation in agricultural areas.

The other curve, of estimated employment - I'm open to suggestions. But I'll tell you what we used. We used Nathan's figures, and then Daggett, in order to distribute them regionally or to have a basis for distributing the Nathan estimates regionally, took the registrations of the Re-employment Service by states as they were given, on the assumption that there would be a correlation between unemployed and the amount of registrations in the different areas. That may or may not be true.

- Perkins: I doubt if it is true, but
- Ross: What is it on the United States total where you have both the figures?
- Haas: Well, the distribution regionally was made on that basis. We did it purely as a matter of suggestion, hoping by doing something like that we'd get a better suggestion. I think there is a very imperative need for it.
- Gill: George, Em's question was did they go together on a national basis - Nathan's estimates and the registration of unemployed.
- Daggett: There is considerable variation from year to year, but whether they go together on a national basis as compared with going together on a regional basis would be, of course, two different questions.
- Haas: We are not putting up any case for it, but if you don't like it, our suggestion is that we should have something better.

- Bean: Could they fluctuate together on a regional basis and not reflect that in the aggregate? How can you have a correspondence regionally and not have it show up in your total?
- Ross: It would be larger on the regional basis than you might find in the national.
- H.M.Jr: But the fact remains that, beginning with January 1, 1936, it looks as though from that point the dollar should have gone down; instead of that, it increased. I mean it looks as though as the employment went down - unemployment - that the dollar should have followed it.
- Hopkins: What makes you think that, Henry?
- H.M.Jr: What makes me think what?
- Hopkins: That the dollar should have gone down.
- H.M.Jr: Well, if you follow what the President has said about four times, that as private industry re-employed people, we will spend less money, why, that line ought to have gone down.
- Ross: Well, of course, we can show that the number of people receiving aid has gone down along with unemployment. Now, when you talk about money, you're getting down to talking about direct relief as against work relief.
- H.M.Jr: We put this up and the reason we asked anybody to come over here is to see what they can do to give us something better. There is no pride of authorship.
- Gill: There is one other point that should be made following Em's point, and that is that these are all emergency agencies. The Secretary said he was going to point his finger to Mr. Hopkins. I'm not so sure that this is, because this is not FERA, PWA, WPA expenditures; it includes everything.
- H.M.Jr: Oh yes, it's the whole picture.
- Bell: The line has gone up beginning January 1, 1936, Em, and there was no direct relief at that time.

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- Ross: In the beginning of '36, it would be all right.
- Bell: Went down a little in '35.
- Ross: What did you say?
- Bell: Went down a little in '35.
- Ross: But those are just annual figures. You don't show any trend in '36. Those are annual figures, aren't they?
- Bell: Yes, they are annual figures, but it started right up January 1st and continued to the end of the year - the line.
- Ross: Well, it shows your fiscal year.
- Perkins: Mr. Lubin, did you try plotting this with reference to known employment? I mean when you get into estimated unemployment, you get into a factor that you don't know much about, but we do know the employment in these various fields. We know the employment in the factories.
- Haas: Wouldn't be just factory employment.
- Lubin: No, but we have a figure on the total.
- Haas: Oh, have you?
- Lubin: Oh, yes.
- Bean: The employment figure would be practically the inversion of these figures of farm labor supply. That farm labor supply figure happens to correspond inversely with the employment in factories. I think it represents that floating population that moves between the factory and the farm as the result of fluctuations in factory employment.
- Daggett: By the way, you can notice that in these states the farm labor supply figure is smallest in industrial states, like Michigan, Pennsylvania, etc.
- Perkins: I wasn't here, but how did you arrive at the farm labor supply figure?

H.M.Jr: He hasn't explained it yet.

Perkins: Oh.

Haas: Mr. Bean - it's his Department's figure. He'll be glad to explain it.

Bean: Well, it's a metaphysical figure. Shall I go on?

H.M.Jr: Yes, it's all right.

Perkins: We can all think in that field.

Bean: The farmers are asked to report a figure on the labor supply as a per cent of normal. Now, no statistician figures normal for them, but they report a figure. They are also asked to report on the labor supply as a per cent of - rather, the demand for labor as a per cent of normal. Supply as a per cent of normal, demand for farm labor as a per cent of normal. Then the supply figure is related to the demand figure to give us a relative figure. I believe Mr. Daggett worked out that relative figure. And that ratio, for various reasons, happens to correspond almost perfectly with the fluctuations in factory employment.

Perkins: But this is based on opinion.

Bean: Yes.

Perkins: How many years have you been taking that?

Bean: That's been going on since 1918.

Perkins: With how many farmers?

Bean: 50,000 - probably less than that.

Eccles: You certainly get the trend this way.

Perkins: They've been doing it long enough.

Bean: Whatever it is, it does happen to represent or reflect the industrial situation almost perfectly. With employment down in the cities,

the supply of labor reported by the farmer is up and the reverse, so that you have here in this chart

- Haas: You really haven't anything more than you've got in the previous one.
- Perkins: All it represents is just about the number of families who regularly work in industry but who keep a foothold in the country and go there when times are bad.
- Bean: Yes, that's it.
- Perkins: People who have never quite lost their
- Bean: They shift between the two areas.
- Perkins: But what do we get out of this? I don't see what we get out of this chart. It doesn't mean anything to me.
- H.M.Jr: I don't think you get much out of it.
- Perkins: In the first place, this estimated unemployment - I mean I think that is very
- H.M.Jr: After I heard of this "metaphysical," why,.....
- Perkins: Well, the farm labor supply is metaphysical, and the estimated unemployment is metaphysical.
- H.M.Jr: I don't think I want to take it to the President.
- Hopkins: I wouldn't even want to be with you when you take it.
- H.M.Jr: Because I've heard him discuss unemployment figures long enough.
- Perkins: If you talked of "metaphysical," perhaps that would just give him - put the fire under him to make him come around and let us make a real census.
- Haas: That's the point I was going to raise. You're talking billions of dollars in that particular field, and when you come to chart it, here's the best you can do. That is really the best that

can be done. What is it? You say it is nothing. I agree 100%.

Hopkins: You are quite wrong on that. Much better charts can be drawn for the need for relief. We know more than any other nation in the world about why we need money for relief.

Perkins: But this isn't expenditure for relief.

Hopkins: Yes, it is; isn't it?

Haas: It's all expenditures.

Hopkins: Does this include that billion dollar purchase of materials?

Haas: It includes that.

H.M.Jr: We're not personal yet.

Hopkins: Well, I know you're going to get to that in a moment.

H.M.Jr: You (Haas) have one more chart.

Haas: I only have one copy of this; and I doubt if it is very easy to see it across the room. Up here in this profile map are these automobile registrations expressed in this way: The darker the area, the smaller the percentage of 1929; for instance, the black represents under 70%. In other words, with reference to 1929, the black area is the most depressed as expressed by the automobile registrations.

Down at the bottom we have the states arranged in terms of per capita Government expenditures - Federal expenditures - going into the states - the average per capita expenditure. This is on fiscal 1937 for the country as a whole, about \$35.00 per capita.

The state which has the largest per capita expenditure is Nevada - on a per capita basis, a hundred forty.

Hopkins: That was a doubtful state, you know, Haas.

H.M.Jr: George, does that include silver?

Haas: No, it would be out farther than

Bell: You haven't got chart enough.

Haas: After Nevada is Montana, Wyoming,

H.M.Jr: What did Vermont get? How much did Vermont get?

Haas: Vermont got more than the average, about \$38.00. The average is about \$35.00. So it's not so bad.

H.M.Jr: How about Maine?

Haas: Can we find Maine on this thing? Oh, Maine is away down, \$20.00.

H.M.Jr: See, there is the trouble.

Haas: I'll read off a few more. After Montana, Wyoming, South Dakota, New Mexico, North Dakota, Arizona, Idaho, Washington, Oregon, Colorado, Nebraska, Utah, Kansas, Minnesota, New York, California, Wisconsin, Vermont, Oklahoma, Delaware, Florida. Those are all above average.

McReynolds: Sen. Glass is the lowest.

Haas: Yes, he's down at the bottom, about \$18.00.

H.M.Jr: Now, Mr. Hopkins, if you will ask your questions?

Hopkins: Well, I would very much like to have some one tonight discuss very briefly the effect of Government spending on prices and an analysis of the present price situation and its potential effect on employment and unemployment, cost of living, etc. Now I wonder if Henderson would just take a minute to talk about that, just a few minutes.

Henderson: Well, I think Marriner put his finger on one of the principal things, and that was that the real velocity in prices didn't begin until October or so of last year. There were changes in the

individual groups, but the price levels stayed - wholesale price index stayed around 90 from about the first of 1935 clear up until about October. Since that time, it has moved about 10%.

Taken in terms of what lumber and products that we and the sponsors have paid for - that is, up until about February 28th - it would mean that as far as lumber price increase is concerned, we get one quarter less lumber.

Now that price increase in wholesale prices was a lot of it in the basic materials and pretty largely in the controlled price group. That is, there are some very definite supply and demand features, but very largely there was an increase in the prices of controlled products. As you run down the list, for example, of what the WPA spending has been, you will find that there is scarcely an item in which there isn't some measure of control. The effect on the retail price

H.M.Jr:

May I interrupt you a minute? You say it's the effect from controlled products. What do you mean?

Henderson:

I mean that either there is a private agreement of some kind as to price or there is a conscious control over supply, or there is a basing point, or there is some factor that interferes with the normal supply coming to the market.

H.M.Jr:

Oh, I understand.

Eccles:

That is, where they haven't utilized capacity.

Henderson:

What's that?

Eccles:

Where they haven't utilized capacity in particular.

Henderson:

Well, you take in some of these groups where there is unutilized capacity. As Harry pointed out, the prices remained high - relatively high through the pre-depression period, and when it got to something like 55 to 60% utilization, why it began to move up in an extraordinary manner. It isn't always in the places where there is a lack of an effective use of the capacity.

Take our old friends, cast iron pipe and fittings. The WPA program spent \$22,000,000 on that, and the chart shows that about the beginning of the year, they upped the prices despite the fact they are running at only about 60% of capacity. And the Federal Trade Commission has moved in on them. Now you can take most of these things as they go through and you will find that a lot of it has not been due to a normal relationship between supply and demand causing the price increase, and it hasn't been due to the Federal spending; it hasn't been due to factors which are ordinarily ascribable to inflation.

- Perkins: Was there any labor cost change in that?
- Henderson: Yes, labor cost changed but the labor rates didn't begin to go up until November. That is, I think your index
- Lubin: Stayed pretty closely the same from some time before the NRA went out until about October and November.
- Perkins: In that industry?
- Henderson: Well, in an index of your hourly wage rate.
- Perkins: Yes, but I meant in that industry did it change? In cast iron pipe and fittings.
- Henderson: They had a smaller wage increase on December 1st. Their prices reflected it long before that.
- Perkins: In fact, it is an unjustifiable rise?
- Henderson: I think so.
- Lubin: Remember this other fact, too. Our study of steel shows that the number of man hours required to finish a ton of finished product went down very sharply as production went up. At 25% capacity, it required approximately 46 hours to produce a finished ton of the product. At 65%, that number fell to 36 hours, 10 hours less.
- Perkins: So that

- Lubin: It should be more than offset by this.
- Perkins: Of course, I think
- Henderson: These prices necessarily which have been given in the memorandum and described here are either January or February prices and do not reflect the March prices or those which Dr. Lubin has pointed out are in prospect. That is, if you take the Fairchild reports you can very plainly see that this wholesale price rise is almost bound to increase; that is, the plans are already made.
- Bean: There are other prices for which the prospect would be lower prices rather than higher ones, aren't there?
- Henderson: Well, fruit prices, you mean?
- Bean: I think your whole agricultural prices will soon ,.....
- Henderson: How soon?
- Bean: As soon as you get your crops.
- Perkins: If the season is normal.
- Bean: I mean you have a spread now of 20¢ between your current price and your distant futures, which reflects what the market expects in the way of a price level with something like a normal crop.
- Henderson: On the other hand, the increases in prices are on basic commodities. And some of them have not been reflected as yet. There is a normal lag of, I would say, 7 to 8 months before they are reflected.
- Take cotton textiles, for instance. In one item, sheets, for example, the wholesale price is up about 25¢ and the retail price is only reflected about 15¢, and considering your prospect for the fall market, it's going to be 35 or 40¢. And in a certain one of the operations in textiles that I have had all the figures on, a cent increase on a 30¢ item is expected to reflect about 8¢ in the retail price.

In other words, as far as the WPA program is concerned, there is a very excellent prospect that our dollars in the fall will be about 80 to 85¢ dollars.

- Eccles: As compared with?
- Henderson: As compared with what we have been getting in 1935 and 1936.
- Gill: At the time the security wage was set, taking the minimum at that time.
- Henderson: We got the first reaction today, wasn't it, Corry, from Joe Robinson's bailiwick, complaining that the cost of living was exceeding the security wage.
- Gill: And that the security wage in Arkansas at the time it was set was at the minimum, and that if he had realized the prices were going up so the way they have, he would have tried to get an amendment through to change the security wage.
- Henderson: Or repeal the laws of supply and demand.
- I think that the question of selective spending is certainly an extraordinarily important one, but I am not at all sure that just a selective spending will control the boom. Now, I'm not sure that even selective spending plus some pretty strict monetary methods will control it, because in the realm of the controlled price groups, they are fairly independent of over-all control. And by our experience with NRA and previous experiences, if prices is any indication, this is the time when the advantage is taken of the market, in order to boost them.
- Bean: Does that mean they will continue to take advantage or that, once having taken it,
- Henderson: I think they will continue.
- Bean: Well, of course, your industrial price level remains flat until the end of 1936.

- Henderson: I think that by the end of 1934 the price level had reflected the change from devaluation; it had reflected the bouncing back that you get with a reversal in policies; it had reflected the increases which were due to NRA and the regaining of private control. Because, remember this: It wasn't the NRA code provisions in strict effect that were responsible for the main price increases. It was the regaining of control.
- Lubin: The price increases came to an end during the first few months. The biggest increases occurred before June of 1933.
- Henderson: And the stability that was aimed at was the gaining of the effectiveness. As, for example, in steel, very definitely in 1932; in 1932, Weir and some of the independents were thinking very definitely of breaking loose from the fixed price structure, and under the manipulation of the code and what they could do, they regained the old relationship. And that was true in the electrical products; it was certainly true in this cast iron; it was true to a lesser extent in lumber; it was certainly true in paints and varnishes, brick tile, terra-cotta, glass, cement, building materials, and finished products, like heating, ventilating, and plumbing supplies. Most of those were regained without NRA provisions, and you had a lower price level.
- Now in that time, as Weintraub's reports showed, we have had an over-all increase of productivity of about 20%; we have had an increase in concentration, most assuredly, of control; we've got an increase in the private resources which our concentrated group have at their disposal, and all in all, the control picture and the ability to manage prices from this time on is such that just merely regulating the Government spending and using the monetary controls is very likely to be insufficient.
- Gill: Aren't there some other things, Leon, such as exercising the tariff power?
- Henderson: Well, there are a number of things available, of course.

- Eccles: For instance, you've got a tariff on Canadian lumber; you've got a 4¢ tax on copper; you've got a tariff on steel, which, of course, may not be particularly effective today because of foreign demand. You've got a condition of scrap iron, of course. I don't know whether it is possible constitutionally to put embargoes, but I mean in those great, important basic products, where questions of tariff, question of a tax which is equivalent such as that on copper, question of an embargo - you can't deal with the detailed fabricated products, but if you can deal with these basic products
- Henderson: They are the ones that generate and start and accelerate the price rises. And due to the way our whole cost accounting is set up, practically all of it is on a percentage basis.
- Bean: Leon, do you think prices will continue to go up?
- Henderson: From this point?
- Bean: I mean is that the burden of your
- Henderson: I think so.
- Bean: Now, I wonder if you have in mind the situation that developed after 1921. You have a very sharp advance in metal prices and a lot of other non-agricultural prices between 1922 - beginning of '22 and last part of '32, perhaps beginning of '23. Now, those prices didn't continue to go up. I wonder if, standing at the end of 1922, seeing that momentum in prices coming out of that low point of '21-22, you wouldn't have reviewed the situation then much in the same way that you review it now.
- Henderson: I don't think I would, because I don't think that we have a similarity of conditions.
- Bean: Don't you always get a rise in prices of substantial proportions during an upswing in a business cycle?
- Lonigan: I think your curve of prices in '21-22-23 was not free from regulations. You had very strong

Governmental intervention in that price situation in early 1923, by the Federal Reserve Board and the Department of Commerce and Mr. Hoover.

- Bean: They were not regulations. I think the Federal Reserve Board
- Eccles: Not regulations, but very, very powerful intervention and persuasion.
- Bean: Well, was there any more
- Henderson: Certainly drew off the means of payment.
- Eccles: They broke down the price level - restrictive credit policy.
- Henderson: That was one of the things on which the campaign was carried, and immediately the Federal Reserve Board went into a withdrawal of the means of payment, and your whole price structure was subject to it.
- Bean: It did something of that sort recently.
- Eccles: Yes, but at that time they forced - they limited excess reserves, forced the banks to borrow, and raised the discount rate.
- Henderson: What has been done, and I think Mr. Eccles will bear me out on this - what has been done up to date and what is due to go into effect is not going to mean that there will be a calling of loans in the individual bank districts, and that is what resulted with the deflationary policy of the Federal Reserve Board in the early '20's.
- Lubin: But not '23.
- Goldenweiser: That was 1920.
- Eccles: But isn't this a factor in this situation? I wouldn't be sure that prices will continue to go up. I think it depends somewhat on world conditions, of course, and we've got to consider how we can cushion ourselves against the repercussion of world inflation conditions, which are a very important factor.

But from purely a domestic standpoint, we've got tremendous capacity to produce, and we've got a great ingenuity for meeting problems when it becomes profitable to do so. You have certain marginal production. You take in the copper business; when prices are at a low point, there are certain mines that just can't operate, and they don't operate. When they get up to a point of, say, 10 or 11¢, then - and they did just last fall - then there are certain mines that go into production. It takes time to get the expansion, so that they can increase their output to some extent on an existing price level, and even on a somewhat lower price level than they've got today, but on a 10¢ price level they couldn't. You've got the same thing in the lumber industry.

Henderson:

Can we make a point right there on the difference between copper stocks in 1921, in that post-war period, and where copper stocks are today? How long is it going to be before you will get that relationship in stocks which might likely break 17¢ copper down to 10¢? It will take quite a long time. Every yard had copper on hand in the '20's, and it took a long time before it was liquidated.

Eccles:

Well, you've got a monopoly there, all right. You've got to deal with monopoly. I don't think you can just talk about it. You've got to deal with it. I'm just mentioning this factor of marginal production in a general sense, not in any specific way.

Hass:

I think it is very important.

Eccles:

Yes, it is a factor.

Now, you take certain of the old steel facilities. At a certain price of steel, it doesn't compensate for the cost of putting them in shape and operating them. With these present prices, they are putting plants into operation that haven't been in for a long while.

Hopkins:

And think of the inordinate profits the fellows are going to make who are ready to go into operation.

- Eccles: That's right. That's exactly why you have got to have a tax system to do something about it.
- Burns: And there is a further point that the steel industry is bringing in new furnaces and new mills. Half a dozen major mills will come into operation this year. So it's not only the marginal mills, but the new ones, too.
- Eccles: There is this encouraging thing about it, if there is anything encouraging. It is this: That this rapid price rise - the thing up until October was going along on a pretty level basis, but as indicated the prices have been rapidly advancing since then, and it takes a certain amount of time to attempt to overcome it, but I do think the labor problem comes in here as an important factor, and
- Hopkins: I'd like to ask Miss Perkins how much of that rise in prices was reflected by wage increases and how much in profits, and have you any notion of what is happening in textiles with this textile rise?
- Perkins: Well, we have been making a study on the steel situation, but I am afraid you will find there is not complete agreement throughout the Government, with regard to the proportions that are reflected by the change in the wage level. Do you want to discuss that, Dr. Lubin? You went over that memorandum this afternoon, didn't you?
- Lubin: We estimated the increased labor cost resulting from wage increases in three different ways, and the best we can get is a ratio of 1.91. In other words, for every dollar increase in labor cost, there is a dollar ninety cent increase in price. That's the best we can do. The worst we could do was a ratio of 3.20. Now, that doesn't take into consideration the changes in raw material prices of scrap iron, etc. Now, in textiles
- Perkins: But the actual price rise has been so much.
- Lubin: The actual price rise has been 12% and the best we can do on labor cost would be 6%.

- Gill: What per cent of that would have to be paid out of increased cost of raw materials, other than labor?
- Lubin: Well you see, your prices went up in December and then went up again this last month, and we don't know how much of that price rise preceding this one there was absorbed in that increase. We do know that the profits during the last quarter did go up rather markedly.
- H.M.Jr: Isn't this the problem
- Lubin: Am I right in saying that the actual net profits in the last quarter of '36 are equal to the last quarter of '29?
- Henderson: The profit for all large corporations was larger in the last quarter of '36 than it was in the last quarter of '29.
- Lubin: So they must have absorbed that increased raw material cost.
- Perkins: I think this price item is very important, because there's one school of thought in the Government
- Lubin: I think it is all right to say that one of the Government Departments is proving the reverse, that the increased labor cost was greater than the increase in materials.
- H.M.Jr: Henderson, I don't just follow you. I mean I don't know whether you're going to draw a conclusion. But do I gather that you don't believe we should follow this study of selective spending?
- Henderson: Oh, absolutely, I believe you should.
- H.M.Jr: I mean do you think it is worth while?
- Henderson: I think it is worth while. I think that it is worth while to do it and that it would be an exercise of intelligence to do it. But I think it would be dangerous to regard it as a complete control device for a boom.

H.M.Jr: Well then, you said - you mentioned monetary control. You said you didn't think that that would be - I mean I'm just trying to - I wondered if you had been able to think it through to an end. I mean in sitting here I get the feeling that you thought we couldn't do anything. I mean that's the feeling I got.

Henderson: No, I think it can be very definitely mitigated. I think the uproar about steel at the present time will be a deterrent as far as a rise in the next quarter goes, but that you could expect that if you continue the demand - armament demands abroad, and with the English already having, I think they said, 40,000 tons unplaced that they can get with a guaranteed continuity of production and delivery. They have taken off their tariff of 33% and they have opened the way there.

The War Industries Board report on steel is a revelation for anybody who thinks that prices can be controlled in a time of increased demand. That is, the circumstances now are extremely favorable.

Now I'd like to speak on Bean's point as to whether prices will continue to go on and on and on. I would say no. Certainly I don't believe that they will go to infinity. But I do believe that the price rise in wholesale prices will continue, because I know of a number of them that are already planned, and I know the situation well enough in a number of other industries that they always take advantage of it for the raising of prices. And I do not believe that the full effect of the rise in wholesale prices has been felt up to the present time, and when you get that you will have a distortion - you will have an unbalance in the relationship which produced the vigorous recovery of '35 and '36. I think the luckiest thing that the Roosevelt Administration has had has been that stability of price levels during '35 and '36. If there is any one thing that most people are agreed on, it is that we should have had a reduction of price level during the '20's in order to reflect the degree

of lowering labor cost. We had an increase of productivity of roughly 30% and you only had an increase of about 8% in labor cost. And your price level in 1929 was about the same as it was in 1922. Now we are at about 88. We are only 7 points off of that danger point, and I think we will go further, and I think that we are very dangerously threatened with an unbalance between effective purchasing power and prices, and that will be reflected later.

Now, as to what can be done, Mr. Morgenthau, entirely depends upon the national policy and what the Administration decides to do. If it throws its full force into the management of prices, it can do a tremendous number of things, but even with all the things that are available, such as tariffs, such as yardsticks, such as encouragement of cooperatives, such as selective use of the flexible tariff provisions, such as some discrimination in tax policy and a further management of the Stock Exchange - an increase in the margins, for example - even though use is made of all of those, you will still have a reflection of the cost of living which will make it almost seem necessary to keep up consumer expenditures, particularly since there are about 18,000,000 people who are dependent entirely on their spending from what they receive from the Government. We have an entirely different situation than what we have had at other periods.

Hopkins:

What effect, in your opinion, will the Government have without actually using any of its non-monetary controls, such as exercising its public opinion powers? Take this steel rise. How about having the Government say, through appropriate public officials, that they think this steel rise is inordinate, it is an outrage, it is going to raise the cost of living, that it is far in excess of the increase in wages, and will result in an inordinate profit to the steel corporations?

Now I assume Miss Perkins has something to do with starting this row about the price of steel, while they are claiming it's wages. Now in other words, would you think by the same token that it would be very unwise for any high Government official to indicate that the action of the United States Steel Corporation in raising these prices in excess of wages was an unwise policy?

Henderson: Well, I wouldn't want to take that as an isolated example. I don't think you need to make an example entirely out of steel. I think, however, that an announcement that the Federal Government is going to use all of its powers and emphasize all of its powers to indicate what the treatment might be if they got out of line, would be helpful until you could get into a better balance. I very definitely think that the control measures have got to be implemented by some additional legislation this term.

Eccles: Get some teeth in your anti-trust laws; that's one of the things you need.

Henderson: Certainly. Suppose you started on copper, for example.

Eccles: Take the tariff off of it.

Henderson: Take the tariff off of it. Also, a lot of the marginal mines are in need of assistance, and the RFC has been known to give such assistance. And by your selective spending cut down on copper. That is, you are influencing the supply side. I think then if we proceeded against copper for its plain violation of the anti-trust laws, its participation in the World Cartel - if, in other words, you use everything you've got, you can do something.

There was an exercise Baruch's experience, as I read it, going through the War Industries Board minutes on the individual commodities - copper then wanted - they told Eugene Meyer they wanted about four or five-cents more than they finally got. Well, all during those proceedings, with Brookings as the chairman on that tax committee, and with Baruch hammering away at them,

they did keep it from getting completely out of balance, but they had to use some pretty severe methods. They had to threaten the steel industry, for example, that the Government would take over some of the steel plants and run them themselves. Of course, they were laughed at, and when you looked it up, why it looks kind of like a weak power, but it is certainly there.

Eccles:

Don't you think organized labor could help a lot? For instance, when they go to negotiate an agreement for themselves, they should at least find out whether the whole public is going to pay for that plus an additional profit instead of just saying, "Well now, if we can get a dollar out of that increase, we don't care who pays it, you can add that onto the price plus a little profit for yourself." It seems to me the consumer has got to be represented in this picture by Government, and we can't merely have organized labor here and organized industry over here, which represents a small part in the total population, simply getting together for their own interests for the moment, and against the interest of the public as a whole.

You take one thing that might hold these prices down - I was talking to Stewart McDonald yesterday. He said he had just got back from a three weeks' trip in certain areas, and he was making a survey on possible new housing developments. He said he was quite discouraged, and that instead of an expansion of private building and housing, what they had expected, the prices had advanced so fast that skilled labor and building materials had reached a point that people who were getting their figures and making their plans were withdrawing, saying, "We'll get along with what we've got." Making the best of the situation, because people getting the income that many of them are getting couldn't afford to pay the prices for material and couldn't afford to pay labor cost of \$1.50 an hour or \$2.00 an hour when they were getting 50 or 75¢, or getting \$150.00 a month. So you've got that thing that will retard home buying, because you can get a buyers' strike in that field as you can in other fields, and that's bad.

- Perkins: In this last agreement they made in New York City with the building trades, the employee group didn't even put up a fight. They raised no opposition. They didn't send for us to help them. Why? Because they are in speculative building and they know they can build and sell now. That's what you've got. You've got a speculative situation in the building trades. The home builder may withdraw, but the speculative builder doesn't much care, because he feels that the situation is right now. He can build right at any cost and unload. We have had a good deal of information coming in to the effect that there is a very ready market for small individual houses - sold as quickly as built.
- Lubin: Of course, all this talk about increasing wage rates in the building trades is a lot of bunk. The agreements in building trades usually terminate May 1st. There have been no increases except in Manhattan and The Bronx particularly. The real increases in the past six or eight months have been in building materials. They expect a wage increase demand, but they have already attributed that to past building.
- Now, as a matter of fact, this thing is true, that in building the average house your labor cost will run up to a maximum of 36%.
- Eccles: That is direct, but, of course, it is related back to the whole structure.
- H.M.Jr: Could I sort of see if we've gotten anywhere? Some of you may have a bed.
- Hopkins: Throwing us out.
- H.M.Jr: What?
- Hopkins: The business of being thrown out.
- H.M.Jr: I wonder if any group could possibly - we've done the best we could on this thing, everybody else cooperating, and I just - personally, I feel I've gotten a lot out of this tonight. I wondered if anybody else wanted to take it and continue

this price thing, and then maybe we might have another meeting. In view, I mean

- Hopkins: At some other time, I certainly would like to have Mr. Bean discuss the picture as he sees it in terms of keeping farm income in balance in relation to this whole price picture and the situation as it now exists.
- H.M.Jr: Well, I spoke to Mr. Wallace, and he was terribly sorry he couldn't be here, and I asked him whether he wouldn't prepare a paper and he said he would. Did he say anything to you (Bean)? So maybe next meeting we can have it from the agricultural viewpoint.
- Bean: We'll be glad to discuss it as we see it.
- H.M.Jr: Taking it from the agricultural price view, huh?
- Bean: Be glad to. If he hasn't written the paper, it doesn't matter; one of us will.
- H.M.Jr: He said he'd get back Monday.
- Bean: Well, I'll discuss that with him Monday, and if he has a paper
- H.M.Jr: How would that be?
- Bean: You mean on Monday?
- H.M.Jr: No, no. I mean when he gets back we could have another meeting some time.
- Perkins: I think it is important not only with respect to price control, but the whole question of expenditure control ought to be thought of a little bit, in relation to the degree to which Government expenditures in particular industries have been and are still basic in the activity of that industry at all. I mean we regard people working for that industry as privately employed. They are not counted among the unemployed or relief people. In many industries the Government expenditure is probably very significant in the whole present picture of that industry. I

mean I think we ought to do that, don't you - I mean on the basis of the raw material we have now, I think we could probably get an estimate that you'll all agree to as to what industries are actually relying today on Government orders for a proportion of their employment. That is significant in the whole picture of the community.

Haas: Cement, for example.

Perkins: Just take that, for example.

Haas: 67%, wasn't it?

Perkins: Yes, but what does that mean in terms of employment there?

Henderson: Well, Mr. Morgenthau I wonder if in your Procurement, you might explore also what the possibilities are, say, in terms of a housing and a works program, of offering to buy certain quantities distributed over, say, the next two or three years at existing price levels, and very positively indicating that the Government wouldn't be interested at higher price levels - that it will not go forward with that kind of program if the price level does go up.

Now, I assume that in the lumber industry particularly they have gotten their stocks in fairly good control. That is, there is close to - well, right at the present time about a billion board feet less than we had to wrestle with in NRA; and time and again they indicated that if they could see a continuity of demand, they could make their engagements at an entirely different price than if they had to depend upon a piecemeal, hand-to-mouth kind of handing out of Government orders.

Perkins: On steel they claimed that the orders were piecemeal.

Henderson: You figure you are able to fit them in. If they were able to exercise a certain degree of selection of the time when they would fit them in, and know over a period of a certain

number of months or years that they had that much of a backlog, they could afford to do it at a price which wouldn't be prohibitive so far as the future is concerned.

- H.M.Jr: Well, I've gotten enough out of this thing. I should think that certainly if you looked at it just from the standpoint of Government alone - that if the President would set up a group which represented unemployment, the Department of Labor, and the purchasing, and they examined the general broad Government spending program, that we could do quite a lot toward keeping this economic program in balance. I mean we couldn't do it alone.
- Henderson: But you could get off the day-to-day basis on some of your monetary controls, and the Reserve Board could certainly be thinking in terms of a volume of credit over a much longer period than they are at the present time.
- H.M.Jr: But if we met once a week and had all these things and gave it - I mean Eccles and I meet at least once a week or once a day, depending upon the necessity; but we are in constant touch. But I haven't - for instance, if anybody asks me how Mr. Wallace was going to spend his \$500,000,000 next year, I haven't got the faintest idea. I mean to me - I mean I just haven't got the faintest idea how he's going to spend his \$500,000,000 next year. I just don't know.
- Perkins: What he's going to buy or anything.
- Peoples: The same thing applies to other Departments as well.
- H.M.Jr: I just used that as an example.
- Lonigan: You mean budget or soil conservation?
- H.M.Jr: Soil conservation.
- Lubin: The Army is ready to motorize in
- H.M.Jr: Who is?
- Lubin: The Army. to motorize in large quantities. There is no reason in the world

why those orders shouldn't be placed so that when employment in those industries starts dropping off, those orders start coming in. I think we should time our purchases.

Perkins: You mean deliberately, so that we know these orders will be placed - they've got to be manufactured during the slack season.

Lubin: Then the same thing in textiles. That volume of Government spending in textiles, distributed at the slack season, would make a tremendous amount of difference in annual earnings and stability.

Perkins: And, of course, the textile thing - I think we all recognize that textiles is in one of its periodic up-surges that precedes their drop, which is usually two years ahead of any other drop. And it may be that what is needed is to - they are very conscious of it; they want to stabilize; they want to level this off if they can - it may be that the holding back of a textile order for a reserve at the time when the drop began
But you (Hopkins) can't carry on your sewing projects that way.

Hopkins: We could within limits control our program in that connection.

Eccles: Take lumber right now. Lumber right now is just at the end of the winter. Your dried stocks are very small. They are broken. And you've got the worst time in the year to place large orders for lumber. It is a time, too, when private industries are placing heavy orders for it, you see. So that you can take a seasonal period in that. And the same thing applies - nearly every industry has a period when it has its slack times, and you can certainly do a lot toward timing the placing of business.

H.M.Jr: You can go a step further, Marriner. I think - Bell can correct me if I am wrong - but you

take all the expenditures of the Government; they in no way fit into the picture of seasonal employment.

- Bell: No attempt is made.
- H.M.Jr: No attempt is made to take the whole Government expenditure and make it fit seasonal employment. It just isn't attempted.
- Lubin: Mr. Secretary, this may mean a two-year budget rather than an annual budget. I mean let's take the case of CCC.
- H.M.Jr: We've been working on a four-year budget.
- Lubin: Let's take the case of CCC. Until they know what their appropriation is for '37-38, they can't place orders for shoes and clothes, can they?
- H.M.Jr: No. But I'm serious - that we're still studying the three billion three; that's what I mean when I say we've been working on a four-year budget.
- Lubin: Have to know at least a year in advance what we're going to need, and that means our budget may have to be made on a two-year basis.
- H.M.Jr: I think we've got something to give the President in the way of suggestions.
- Peoples: Some sort of a group, Mr. Secretary, would have to be developed.
- Eccles: You can call it a Board of Strategy or whatever you want to call it.
- Perkins: But leave out the word "control" for the sake of public relations.
- Eccles: I think psychologically, too, that if the public - business, labor and people generally - knew that there was a conscious effort on the part of the Government to do something about this thing, and that they were really studying all these problems and trying to relate them,

that that in itself would have a very, very favorable psychology from the standpoint of the public interest.

- Henderson: The discussion in England at the present time on the management of their spending in relation to the tax and borrowing, has exercised a very definite effect on English prices.
- Eccles: Betcha life! It makes a lot of difference. It gives these people a changed attitude.
- Perkins: Another thing that it will do - I have to think of this - it will brace up resistance on the part of certain employer groups to make agreements with labor unions. Of course, that is a factor I don't like to see come into the picture. But if they think the Government is going to control or take steps to keep their prices down, or withdraw its orders, anything of that sort, they are going to be much tougher in their relations with labor than they are now. I mean at the moment they are softening, so to speak, and they say, "Well, times are better, and go ahead, and we can add this to the price."
- H.M. Jr: That can be used both ways. That's a double edged sword.
- Lubin: One of the big textile producers told me this morning that the increase of 10% that was given on textile goods by some of these firms that have already signed up meant an eight-tenths of one cent increase in the cost of manufacture per pound to print cloth. The margin they are working on is 7¢. In other words, they were very magnanimous; they gave labor eight-tenths of a cent, although they were getting 7¢.
- Eccles: In each case when that happens, if there was a board that got the facts - knew the facts, and when the negotiations were made the public was represented - there's no industry - that wants to be put up before the public as being an institution that is taking an advantage of the public. I mean they all want to have a favorable public reception, don't they?

Perkins:

Well, I think this has been extremely good, Mr. Morgenthau, and I have had great help from it. Thank you for asking me.

April 1, 1937

SELECTIVE FEDERAL PURCHASING AND
ALLOCATION OF FEDERAL PROJECTS

(A tentative report to serve as a basis for discussion)

SUMMARY

The competition provided by Government purchases in industries which in some cases have been unable to keep up with private orders, and in raw material markets in which prices have risen steeply, suggests the need for a general study of Government purchases and purchasing requirements, with the object of determining whether a better distribution of necessary purchases could be made in the public interest, and whether Federal emergency projects could be so selected as to shift material requirements more largely into industries where unemployment is still relatively high. Such a study should properly be extended to include a survey of emergency requirements by regions, to provide a basis for the distribution of Federal funds for work relief in relation to unemployment needs. This report provides a general picture of the ground which such a study might cover.

Direct Federal purchases come under three classifications: Regular departmental purchases, made through the Procurement Division; direct purchases for relief, made through the Procurement Division; and purchases by the Army and Navy. The indirect purchases, or those made by independent contractors on Federal projects, are more important in volume, and more adjustable, than are the direct purchases. Greatest possibilities therefore seem to be presented in the adjustment of Federal projects to accord with market situations and unemployment conditions in the industries supplying the various materials. It may also be found that a better distribution of direct purchases could be made to reduce competition with private industry.

The most important depressed industries at present, from an employment standpoint, are those relating to construction. Employment is particularly low in the industries producing lumber, cement, brick and tile, furniture, and heating equipment. The major industries operating nearest to peak levels are steel, textiles, and automobiles. The following three types of projects appear well adapted to present conditions: (1) Light construction; (2) road building; and (3) flood control. These would use a maximum amount

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of labor, and of such depressed materials as lumber, cement, and brick, and a minimum amount of steel. They are also rather well adapted to shifting from region to region according to unemployment conditions.

Some indication of regional variations in unemployment is provided by data on employment applications and by indexes of farm labor supplies. While these indicate that the volume of unemployment in each region has been reduced during the past year, the per capita Federal emergency expenditures in each region have increased. Indexes of regional variations in purchasing power, as reflected in new car registrations and bank debits, also show a consistent increase in 1936.

This report is in no way conclusive, but is intended merely to suggest an approach to the problem. A more detailed study covering the subjects touched upon in this report should be made.

SELECTIVE FEDERAL PURCHASING AND
ALLOCATION OF FEDERAL PROJECTS

Confronted with the following facts,— (1) That production in certain industries has expanded to a point where manufacturers are unable to make near-term delivery on new orders, while other industries show only partial recovery; (2) that prices for certain products, under the temporary influence of urgent buying, have reached levels not likely to be maintained after production has responded to the increased prices; and (3) that the number of unemployed workers varies widely from industry to industry, and from region to region,— it would seem advisable that the Federal Government adopt a policy of selective purchasing in filling its requirements for goods and materials, so far as practical, and adopt a policy of allocating Federal projects (1) by types of projects, according to economic conditions in the industries supplying materials for these projects and (2) by regions, according to regional unemployment conditions.

The adoption of a general plan permitting the shifting of Government expenditures from industry to industry, and from region to region, should benefit the nation in a number of ways: (1) By preventing a further congestion of orders in industries already crowded to capacity; (2) by stimulating lagging industries; (3) by providing employment in regions and in industries where unemployment is most serious; (4) by permitting buying in individual industries to be reserved, where practical, until such time as it may have a more beneficial effect; (5) in general, by furthering the policy of the Administration to bring about a well-rounded recovery and stability in all branches of the economic structure.

Extent of Government Purchasing

The United States Government stands far in the lead as the country's largest buyer, purchasing goods and materials for its own operations as well as financing the purchasing of a much larger quantity of goods and materials used in carrying out various recovery and relief projects. In the 1936 fiscal year, the Procurement Division reports a total of \$47,903,069.47 purchased through that Division and by other Departments and establishments of the Government under term contracts executed by the Procurement Division, exclusive of a very large volume of extraordinary purchases for relief uses, and exclusive of Army and Navy purchases except for office supplies and equipment. A grouping of the Procurement Division purchases by classes, in order of importance, is shown in Table 1, pages 15 and 16.

The table mentioned includes only materials used in the regular operations of the Government Departments, excluding most of the Army and Navy purchases. In the many classes of projects embraced in the Government's broad program for recovery and relief, a much greater volume of material is used, the purchase of which is indirectly controlled by the Federal Government in its selection of projects. The major part of these purchases is included in a tabulation by the Bureau of Labor Statistics, showing a total of \$1,014,092,984 to have been spent for materials used on Government-financed projects during the year December 15, 1935 to December 15, 1936. A tabulation of these expenditures by groups of materials and by classification of projects is shown in Table II, pp. 17 & 18. Summarized, this table shows an allocation of the following sums to various types of industries:

Cement, stone, clay, and glass products	\$ 304,895,000
Iron and steel and their products	254,979,000
Machinery, not including transportation equipment	140,685,000
Forest products	83,269,000
Textiles and their products	21,809,000
Chemicals and allied products	17,065,000
Nonferrous metals and their products	8,262,000
Motor vehicles, railway cars, and other transportation equipment	6,567,000
Miscellaneous	<u>176,462,000</u>
All materials	\$1,014,093,000

In more detail, the figures show that in Federal construction projects during 1936, more than \$10,000,000 was spent in each of the following 20 individual industries:

Structural and reinforcing steel	\$ 103,071,000
Cement	99,228,000
Foundry and machine shop products	64,313,000
Sand and gravel	58,219,000
Lumber and timber products	41,372,000
Brick, tile and other clay products	39,740,000
Cast iron pipe and fittings	39,367,000
Concrete products	38,941,000
Electrical machinery and supplies	35,855,000
Paving materials and mixtures	34,976,000
Crushed stone	33,784,000
Petroleum products	32,328,000
Steel works and rolling mill products	25,511,000
Engines, tractors, turbines	24,229,000
Heating and ventilating equipment	23,589,000
Electric wiring and fixtures	19,544,000
Plumbing supplies	17,300,000
Marble, granite, slate, etc.	13,721,000
Planing mill products	11,028,000
Furniture and fixtures	10,552,000

The volume of Federal purchasing has without doubt been sufficient to influence appreciably the national level of business activity, and in some cases to lift certain industries out of depression conditions. Of the \$1,014,000,000 spent for materials used on Federal construction projects in 1936, for example, \$255,000,000 was spent for iron and steel products, not including machinery. This figure would equal 34 percent of the total sales of the United States Steel Corporation in that year. In 1934, approximately 76 percent of the output of the entire cement industry in this country was used in Federal-financed projects, and 57 percent of the output in 1935 was so used. In structural and reinforcing steel, 45 percent of the entire output of the industry in 1934 and 47 percent in 1935 was used on PWA projects. In cast iron pipe and fittings, 26 percent of the entire output in 1934, and 37 percent in 1935, was used on these projects. In the clay products industry, making brick, tile, and terra cotta used in building construction, PWA projects used approximately 26 percent of the output in 1934, and 38 percent in 1935. These figures illustrate the extent to which Federal funds have served to maintain employment in individual industries.

Recovery in Factory Employment not Uniform

Despite such assistance, however, the employment in certain industries has continued to lag, while most industries have gone forward to levels of employment closely approximating those of 1929. In Chart 1, attached, is shown graphically the employment situation in each of the important industrial groups as compared with employment in 1929.

Outstanding among the backward industries, it will be noted, are those related to light and heavy building construction. Employment is particularly low in the lumber industry, which, in 1929, provided work for an average of 419,645 workers in sawmills and 90,099 workers in millwork. Data for January 1937 indicate that employment in sawmills during that month was running at only 57.0 percent of the 1929 average, and employment in millwork at only 57.4 percent. These employment figures compare with an average percentage of 91.9 for manufacturing as a whole. A tabulation including other important industries related to building is presented below:

	Average no. of employees in 1929	Employment in Jan. 1937, % of 1929 ^{1/}	
Lumber, sawmills	419,645	57.0	
Lumber, millwork	90,099	57.4	
Furniture	193,475	80.4	
Brick, tile, etc.	93,422	57.9	
Structural steel	54,933	65.6	
Hardware	52,274	78.7	
Heating equipment	39,571	83.0	
Marble, granite, slate	37,802	43.6	^{1/} Seasonally adjusted.
Cement	33,221	77.5	
Cast iron pipe	<u>19,755</u>	<u>76.3</u>	^{2/} Weighted avg.
Total	1,034,297	65.5 ^{2/}	Source: BLS

A view of the present employment situation in the more important of the backward industries, with a comparative view of the situation in all manufacturing industries, is presented in Charts 2 to 8, attached. These show trends of employment and payrolls by months over a 14-year period up to January 1937. The relatively slight improvement that has taken place since the low point of the depression in sawmills and millwork, cement, brick and tile, structural steel, and heating equipment, will be particularly noted. In contrast, the employment and payrolls for all manufacturing industries show an improvement to levels nearly equalling those of 1929.

In certain industries, on the other hand, the number of workers employed has expanded to near the limit of capacity, equaling or exceeding the 1929 levels. These include the three major industrial groups in the United States -- steel, textiles, and automobiles -- which largely account for the present high level of manufacturing activity as a whole. The trends of employment and payrolls in blast furnaces and steel mills, in iron and steel products, in cotton goods, in knit goods, and in automobiles are shown in Charts 9 to 13, attached. In these industries, obviously no Federal assistance is now needed for increasing employment. On the contrary, it would seem that Government purchasing in these industries should be deferred, where practical, until production has begun to recede, in order to avoid a further congestion of orders in competition with private buying, and a further boosting of prices.

The Situation in Prices

The recent sharp upturn in commodity prices, which has carried prices for certain commodities to levels that may not be warranted by the supply and demand outlook over the remainder of the year, gives greater importance to an investigation of possibilities in the distribution of Government purchases. Obviously it would not be in the public interest to add a large volume of Government buying orders, either directly or indirectly, to price situations that may prove to have been largely created by speculative buying, unless the urgent need for such purchases should outweigh other considerations.

Whether present prices for various types of materials and commodities are high or low can be judged only in comparison with some selected level used as a standard. In Table III, page 19, two such comparisons are made for average prices during February 1937, for various commodity groups. One uses as a standard the general level of commodity prices, represented by the all-commodity index of the Bureau of Labor, and the other uses the average price in 1929 for the respective groups.

It will be noted that certain building materials, notably structural steel, lumber, and cement, stand relatively high in both comparisons. This may partly explain the low rate of activity, and consequently of employment, in the building industry. Metals and metal products during February were rather high in price as compared with the all-commodity index, but remained below their 1929 averages. The recent increases in steel prices, however, have placed them above their 1929 levels.

The more recent movements in individual prices are shown in Table IV, page 20, in which market quotations on March 25, 1937, are compared with prices a month earlier and a year earlier. The sharp upturns in the metals, and in cotton, hides, and rubber, are particularly noticeable.

A Survey of Federal Purchasing Suggested

In view of the price situation outlined above, it would seem well for a careful survey to be made of anticipated Government requirements for all purposes for some time ahead, with a view toward adopting a purchasing policy for each of the major items on the required list of materials. Such a survey should provide answers to the following questions:

1. What materials will be purchased in sufficient volume to be an important factor in the market, and how much of each will be required?
2. What is the current and prospective market situation for each of these materials?
3. To what extent can purchases of each material be deferred or anticipated, and to what extent must purchases be made as needed?

Entirely aside from the possibility that such a survey might bring about a saving to the Government in the prices paid for materials, through suggesting a better distribution of purchases in the light of varying market conditions, it should serve the useful purpose of indicating when it might be in the public interest for the Government largely to remain out of the market, in order to avoid a congestion of orders in competition with private industry, to avoid unjustified increases in price, or to avoid the encouraging of speculative buying. Conditions favoring such a policy appear to exist today in the steel and textile industries, and in the markets for a number of raw materials. On the other hand, such a survey would serve to indicate when Government orders could be placed to good advantage for maintaining employment in various industries and contributing most to recovery.

These direct Government purchases are only a part of the total material purchases controlled by the Federal Government. A much larger quantity is involved in the purchases made by private contractors under the various recovery and relief projects financed wholly or in part by Federal funds. Through a provision in the Government contracts requiring a detailed statement of the quantity and value of each material used, the Bureau of Labor Statistics has been able to analyze each type of project in terms of material requirements. Reports have been completed for certain types of projects, and studies are in progress on others.

An analysis of possibilities in the distribution of Government-financed projects should therefore be included in the survey mentioned above. Such an analysis would be directed toward determining each year the types of projects that would make use of the maximum amount of materials from depressed industries, and the minimum amount of materials from industries in danger of over-production, or of materials that appear over-priced. In any project, of course, it is impossible to dispense with a certain amount of materials in the latter class. The problem is one of selecting projects that use them in smallest amounts.

During the current year, since the building industries are most depressed, the selection of projects should include those using a maximum amount of lumber, cement, and brick, and a minimum amount of steel and other metals. While the structural steel industry is depressed, the volume of orders for this type of building material should probably be held down for the present because of an over-supply of orders in the steel industry.

A study will be necessary to determine the types of projects best adapted to present market and employment conditions. The following groups suggest themselves: (1) Light construction and building repair, (2) road building, (3) flood control and erosion control. Low-cost housing projects should be well adapted to present

conditions. Road building and flood control projects — if a national program can be worked out for the latter — have additional advantages in that they require a considerable proportion of labor and can conveniently be shifted from one section to another according to employment conditions.

These projects, furthermore, seem well adapted to the occupations of workers now on relief. According to the U. S. Employment Service, "overalls workers" made up by far the largest total of applicants for employment, white collar workers were next, and skilled workers third. The groups of skilled workers were headed by carpenters, painters, mechanics, and foremen, in the order given.

Regional Allocation of Projects According to Unemployment Conditions

The tendency for the volume of unemployment to vary from State to State, and for the areas of serious unemployment to shift from year to year according to local economic conditions in industry and agriculture, makes advisable the organization of Federal projects on some flexible basis that will permit of their being shifted according to the urgency of unemployment needs in different areas.

Regional variations in the present unemployment situation are shown by data on the number of active applicants for positions on the rolls of the United States Employment Service. The table below, giving by geographical divisions, as of January 1, 1937, the total number of active applicants for employment, and the percent of the total population which they represent, provides some measure of the relative volume of unemployment in different parts of the country, largely as it relates to urban areas.

	<u>Total active applicants</u>	<u>Percent of 1930 population</u>
New England	506,035	6.20
Middle Atlantic	1,596,426	6.08
East North Central	1,128,402	4.46
West North Central	766,758	5.77
South Atlantic	652,946	4.13
East South Central	551,883	5.58
West South Central	519,574	4.27
Mountain	233,285	6.30
Pacific	<u>355,852</u>	<u>4.34</u>
Total United States	6,311,161	5.14

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Regional variations in unemployment in agricultural areas, which also provide some measure of general unemployment in those regions, are indicated by reports of the Department of Agriculture on the supply of farm labor relative to the demand for farm labor in the various States. Data for January 1, 1937, with comparative figures for January 1, 1936, are shown in Table V, page 21. It will be observed that a favorable change has occurred in most sections during the past year, particularly in the industrial areas. Thus New England, Middle Atlantic, and East North Central States, as well as the cotton mill region in the South, have brought their supply of farm labor approximately into balance with the demand for farm labor. This bears out reports from industry, which show a heavy gain in factory employment during 1936.

Certain States, more purely agricultural, have been helped but little by the increased employment in industry. In these States the reported supply of farm labor remains out of proportion to the reported demand. These are largely States of the West North Central and West South Central districts, which were seriously affected by the drouth in 1936, and where industry provides very little outlet for surplus labor. In the West North Central region, comprising the States of Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas, the relative supply of farm labor was reduced in 1936 only from a figure of 140.5 percent to 136.9 percent, which is still far out of proportion to the demand for farm labor.

Regional Emergency Expenditures compared with Regional Unemployment

A general survey of Government emergency expenditures, with a view toward determining the most efficient use of Government funds for relief and recovery purposes, could well be extended to include a survey of regional expenditures in the light of changing regional unemployment conditions. Such a survey would be necessary, in fact, to provide a satisfactory and equitable basis for the regional distribution of emergency projects.

In Table VI, page 22, is shown a classification of Federal emergency expenditures for various purposes by fiscal years, 1933 to 1937, with the present fiscal year divided to show expenditures through February 28, and proposed expenditures March 1 to June 30. State details have been combined by regions and converted to a per capita basis, to provide a direct comparison of emergency expenditures per capita in various sections of the country. These figures are presented in Table VII, page 23, in the form of an index, in which the average per capita emergency expenditure for the United States as a whole during the three years 1934 to 1936 is taken as 100. The

unusually high per capita expenditures in the Mountain region is explained partly by the large sum being spent on the Boulder Dam project, in a region that is rather thinly populated.

To make an appraisal of emergency needs in the various sections of the country, and to determine whether expenditures are being equitably distributed by regions in accordance with these needs, estimates are needed of the changes in unemployment in the various regions. No such estimates have been published, but approximate figures may be derived by using private estimates of total unemployment (Nathan's estimates) distributed by geographic divisions according to the relative number of active applicants on the rolls of the U. S. Employment Service in each region. While the probability of certain inaccuracies in these figures is recognized, they can be used as suggestive of a method of approach to the problem. A supplementary index of regional trends in unemployment is provided by Department of Agriculture data on the farm labor supply, which tends to reflect employment conditions in the cities as well as on farms.

These two unemployment indexes, placed on a common base, are compared in Chart 14, attached, with an index of per capita emergency expenditures. The section of the chart entitled "U. S. Total" shows per capita expenditures in the 1937 fiscal year, for the country as a whole, at a new high level, slightly more than 20 percent above the average expenditures during the three years 1934 to 1936. Yet the estimated unemployment is shown to have declined on January 1, 1937 to about 75 percent of the 1934 to 1936 average, and the unemployment index based on the farm labor supply has likewise declined to about 75 percent of the 1934 to 1936 average.

A comparison of these charts by regions shows considerable variation both in unemployment and in per capita expenditures, with some consistency in the relationship between the two except in the Mountain and Pacific regions. The chart for the Pacific region shows per capita expenditures 60 percent above the United States 1934-1936 average, although the unemployment indexes are even slightly below the current average for the United States as a whole. The high per capita expenditures in the Mountain region, as previously explained, are due partly to the large sums being spent on the Boulder Dam project.

Outside of these regions, the highest per capita expenditures are in the West North Central region. In this area the figures show that unemployment is also highest, probably as a result of several years of drought. The lowest per capita expenditures are in the South Atlantic section, where unemployment has been reduced to apparently the lowest level of any region, probably due to the high rate of activity in the textile mills.

A second method of determining relief requirements for the various regions is on the basis of regional changes in the level of business activity. Improvement in business should be reflected in increased purchasing power, and consequently decreased requirements for Federal relief expenditures. Bank debits and new automobile registrations have been selected as probably more indicative of purchasing power than any other business data. These have been converted into indexes, and in this form are shown in Chart 15, attached, in comparison with the per capita index of emergency expenditures by regions.

Business did show an actual improvement last year, as measured by these two indexes, in every one of the geographic divisions. As reflecting purchasing power, it is possible that the bank debits index may not be wholly accurate, since the increase may have been influenced by changes in price levels, which affect living costs, and to some extent by the volume of Government relief expenditures itself. The same cannot be said of the increased number of automobile registrations, however, which can hardly be interpreted in any other way than as reflecting an improvement in actual purchasing power.

One should theoretically expect relief expenditures to decline as new car registrations and bank debits rise. As shown in this chart, however, the reverse has been the case. Expenditures for the present fiscal year show an increase in all regions, except that in the New England and South Atlantic areas the increase has been negligible. The highest index for new cars registered last year was in the Pacific States, yet that region shows the highest per capita emergency expenditures, with the exception of the Mountain region, where the situation is abnormal. The highest index for bank debits, however, is in the South Atlantic region, which accords, as should be expected, with the lowest per capita expenditures.

An indication of purchasing power in the agricultural sections is provided by the Department of Agriculture in its published estimates, by States, of receipts from the sale of farm products. These figures for the various regions are shown in Table VIII, page 24, for the years 1932 to 1936. It will be noted that every region shows an increase in receipts from farm products except the West South Central region, which was seriously affected by drouth.

Conclusions

It would seem well to have a broad survey made of Federal expenditures used for the purchase of materials of all kinds, with the following objects: (1) To determine which materials are purchased in sufficient volume to substantially affect market conditions, and employment in individual industries; (2) to analyze present and prospective market conditions for these materials in the light of Federal requirements, to

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determine a purchasing program most nearly in accord with the public interest; (3) to study the materials used in various types of Government-financed projects, with a view toward selecting projects each year that will best fit unemployment needs and market conditions in the industries supplying these materials; (4) to study business conditions and unemployment in the different sections of the country, to provide an equitable basis for the distribution of relief expenditures and for the shifting of them from region to region according to variations in emergency needs.

In such a survey, all Government purchases, direct and indirect, should probably be considered together. These would include: (1) Regular departmental purchases, through the Procurement Division; (2) Army and Navy purchases; (3) direct Government relief purchases, handled through the Procurement Division; (4) purchases by independent contractors on Federal projects, reported to the Bureau of Labor.

In addition to any tangible benefits that might be accomplished through such a study, a favorable public reaction toward the consideration of plans for distributing Government purchases more in accordance with industrial conditions can probably be expected.

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Table I

Tabulation of Government Purchases by Classes
for Fiscal Year 1936 1/

Fuel; gasoline, coal oil (fuel)	\$11,401,474.79
Office equipment, typewriters, etc.	9,882,074.44
Motor vehicles; accessories, etc.	6,915,461.23
Furniture	4,289,840.63
Electric apparatus and accessories	2,274,351.07
Stationery, bags, paper, books, etc.	1,803,268.50
Telephone service	1,608,398.76
Instruments of precision	1,396,200.73
Electric service	1,190,451.81
Dry goods; textiles, coverings, etc.	862,015.50
Foods; groceries, ice, provisions	807,366.91
Hospital-apparatus, accessories	506,318.66
Acids; chemicals, drugs, soap, etc.	504,866.53
Oils (illuminating and lubricating)	440,590.26
Lumber, barrels, boxes, etc.	368,157.73
Building material, brick, stone, etc.	357,619.36
Tools, machine	310,029.21
Machinery and equipment	288,461.96
Tools, hand	224,472.86
Rope, wire, and wire, bare	217,299.22
Paints; paint ingredients	211,536.72
Hardware (builders' general)	161,071.18
Railway, dock, yard, fire apparatus	153,914.72
Pipe, tubes, tubing (non-flexible)	150,247.40
Toilet articles and accessories	122,978.80
Forage; bulbs, trees, seeds	115,544.45
Books, blueprinting, maps, paper, etc.	110,102.17
Textile-clothing, knitted goods	107,874.90
Pipe fittings	105,585.53
Agricultural implements, parts	85,395.44
Miscellaneous services	83,069.20
Tableware-aluminum-ware, glass	78,940.68
Badges, insignia, metals, etc.	73,157.58
Metal in bars; metal in plates and sheets; metal shapes (angles and structural)	70,422.97
Leather; belting, harness, etc.	63,718.45
Bake shop, kitchen utensils	63,000.06
Cordage; hemp; jute; oakum; etc.	58,484.27
Gaskets, hose, packing, etc.	52,535.71
Brooms, brushes	46,590.39

Table I
(Continued)

Vehicles (animal and hand drawn)	\$	42,992.22
Athletic equipment		30,766.14
Duck, canvas, tentage, etc.		28,831.70
Caps, hats, gloves, women's furn.		28,648.46
Electric cable and wire (insulated)		24,271.00
Fire-surfacing and insulating material		18,226.63
Tobacco-products; and supplies		17,440.78
Bathroom-toilet fixtures; parts		16,297.95
Bolts, nuts, rivets, screws		15,695.14
Articles of special value; bullion, jewelry, etc.		13,218.18
Arms, small and accessories		12,399.24
Ammunition, blasting-apparatus		10,111.99
Flags, bunting		10,055.01
Pumps and their parts		9,525.25
Boots, shoes, leather and rubber clothing		9,223.90
Boats		9,135.00
Lighting apparatus (nonelectric) accessories, etc.		7,789.29
Boilers and engines (power-plant) (ship), accessories, etc.		7,652.52
Musical instruments, music and parts		6,467.21
Radio and sound signal apparatus, etc.		6,031.46
Ovens; ranges; and stoves; accessories		4,904.66
Drayage and hauling, freight		4,719.82
Engine room fittings, tools, etc.		2,017.36
Submarine material		1,004.50
Boat and ship utensils		822.19
Boat and ship fittings		558.00
Anchors, anchor chains, etc.		403.91
Blank forms		212.57
Boilers and engines (boat power) accessories, parts, etc.		212.14
Foundry-apparatus; accessories, etc.		167.64
Blocks; rigging; accessories, etc.		159.30
Livestock		73.00
Individual equipment (field and landing force)		70.00
Aircraft; aeronautic apparatus, accessories, etc.		35.00
Gyro-compasses, accessories		21.84
Mines; nets; torpedoes, etc.		17.71
Total		\$47,903,069.47

1/ Includes purchases by Procurement Division, open market and contract, and purchases by other Departments and establishments, under term contracts executed by the Procurement Division.

Source: Procurement Division.

VALUE OF MATERIAL ORDERS PLACED ON CONSTRUCTION PROJECTS FINANCED WHOLLY OR PARTIALLY BY FEDERAL FUNDS FROM DECEMBER 15, 1935, TO DECEMBER 15, 1936

(Subject to revision)

Type of material	PROJECTS					
	Total	Public Works Administration	Reconstruction Finance Corporation	Regular Governmental	The Works Program	
		1/	2/	3/	Federal Construction	Operated by U. S. A.
All materials.....	\$1,011,042,984	\$601,342,634	\$19,963,153	\$172,819,639	\$110,565,768	\$277,162,794
Turfing and their products.....	6/ 21,809,304	4,79,134	30,363	111,539	135,657	5/ 21,000,481
Amings, mats, seams, etc.....	70,116	39,255	579	10,758	27,814	-----
Carpet and rugs.....	57,966	57,966	-----	-----	6	-----
Curtains and blinds.....	141,534	51,667	2,112	56,264	51,551	-----
Cotton goods.....	51,260	11,321	27,579	851	11,469	-----
Felt goods.....	34,362	22,442	101	5,533	6,084	-----
Jute goods.....	23,364	21,812	1	50	1,521	-----
Linen.....	300,239	265,617	151	25,895	28,614	-----
Shoes and bags.....	15,267	3,289	-----	5,202	6,575	-----
Upholstering materials, etc.....	4,253	4,058	-----	-----	175	-----
Wools.....	12,928	1,111	-----	9,845	1,316	-----
Forest products.....	5/ 81,268,708	10,773,970	661,334	6,665,480	14,454,144	5/ 30,570,928
Dark products.....	167,758	126,650	10,447	20,145	10,505	-----
Lumber and timber products, etc.....	41,371,380	22,015,933	677,378	5,465,104	13,853,613	-----
Finishing mill products.....	11,027,820	8,520,333	15,909	1,115,092	1,566,586	-----
Window and door screens and weatherstrip.....	130,251	102,046	-----	25,185	2,080	-----
Chemicals and allied products.....	5/ 17,044,978	3,429,280	364,970	1,128,095	2,945,216	5/ 9,105,519
Ammonia and related products.....	75,360	75,917	-----	-----	23	-----
Chemicals, miscellaneous.....	536,753	72,016	110	30,698	413,539	-----
Compressed and liquefied gases.....	310,765	81,066	53,795	27,528	140,234	-----
Explosives.....	3,617,231	1,146,281	316,957	682,781	1,490,112	-----
Fats and varishes.....	8,097,706	2,052,100	14,838	467,140	600,308	4,500,734
Stone, clay and glass products.....	5/ 504,894,697	115,222,726	5,465,064	30,531,509	39,474,895	5/ 34,136,503
Adhesive products, etc.....	216,676	173,854	51,436	9,712	1,606	-----
Bricks, hollow tiles and other clay products.....	59,740,356	23,066,009	63,189	1,579,081	1,555,164	15,516,064
Concrete.....	92,229,368	30,037,817	4,752,689	23,573,436	16,358,438	21,586,038
Concrete products.....	38,961,265	18,959,017	134,019	1,354,290	4,682,509	15,888,004
Crushed stone.....	53,764,271	6,681,231	29,913	8,230,317	4,556,580	14,105,130
Glass.....	1,613,447	1,253,990	7,645	200,811	101,053	-----
Lime.....	319,259	240,206	661	19,481	50,851	-----
Marble, granite, slate and other stone products.....	15,781,239	8,303,817	4,378	2,833,913	1,957,133	-----
Minerals and earth, ground or otherwise treated.....	111,433	82,234	-----	19,187	10,012	-----
Sand and gravel.....	58,215,568	18,812,172	433,007	11,965,083	9,108,387	17,899,519
Filling, floor and wall, and terraces.....	3,156,205	2,409,730	4,236	302,469	419,740	-----
Wall plaster, wall board, insulating board and floor composition.....	5,680,852	4,465,473	20,621	381,725	753,052	-----
Iron and steel and their products, not including machinery.....	5/ 254,978,536	130,441,535	5,660,394	30,276,270	33,860,366	5/ 38,899,351
Bolts, nuts, washers, etc.....	2,553,227	1,342,109	12,339	178,770	611,009	-----
Cast iron pipe and fittings.....	39,566,603	19,234,930	269,518	1,274,840	1,840,302	17,304,993
Bars, shafts, window sash, frames, welding & brin (metal).....	9,625,592	6,910,302	55,499	2,184,130	485,701	-----
Fireproof.....	-----	-----	-----	-----	-----	-----
Forgings, iron and steel.....	3,759,650	1,274,377	7,825	1,758,917	754,599	-----
Hardware, miscellaneous.....	8,717,283	5,349,612	433,300	954,342	1,987,925	-----
Hoisting and ventilating equipment.....	23,548,583	10,573,665	68,203	1,348,699	851,774	2,051,364
Nails and spikes.....	1,344,080	798,774	9,534	122,544	419,146	-----
Nail footings, including spikes.....	917,051	878,970	4,757	31,728	1,528	-----
Nails, steel.....	2,469,770	2,397,374	30,401	25,368	40,076	-----
Spikes, steel.....	16,779	16,672	-----	102	5	-----
Steel wire and rolling mill products, etc.....	23,530,442	14,219,486	346,780	6,442,776	4,811,390	-----
Staves and rasps, other than electric.....	53,122	26,265	-----	4,351	2,466	-----
Structural and reinforcing steel.....	103,071,303	51,446,479	3,469,306	14,338,361	19,471,374	14,305,084
Structural, rolling.....	281,810	278,790	740	474	1,464	-----
Tools, other than machine tools.....	7,535,759	449,286	34,080	771,193	1,388,446	4,479,296
Wire products, etc.....	6,030,095	1,207,444	686,498	1,738,784	1,780,807	-----
Wrought pipe.....	6,568,333	5,218,336	1,278	289,499	323,280	-----
Nonferrous metals and their products.....	5/ 8,261,919	3,361,999	30,899	1,075,781	2,398,440	5/ 1,570,590
Aluminum manufactures.....	269,273	110,278	8,461	125,614	4,460	-----
Copper products.....	707,378	402,089	11,038	99,189	251,242	-----
Lead products.....	208,350	193,056	964	7,139	7,197	-----
Nonferrous-metal alloys and products, etc.....	1,109,553	642,063	536	817,255	29,421	-----
Structural cast.....	4,951,154	2,195,919	6,300	148,244	1,509,481	-----
Zinc products.....	1,407	1,714	-----	1,412	482	-----

Machinery, not including transportation equipment.....	5,160,609,660	5,211,295	5,271,295	54,576,741	17,151,110	10,352,946
Electrical machinery, apparatus and supplies.....	95,954,770	11,040,608	642,562	12,547,616	3,205,028	5,317,082
Elevators and elevator equipment.....	4,170,344	2,500,054	29,951	999,999	147,960	-----
Engines, turbines, tractors, and motorboats.....	21,229,079	6,483,530	217,252	13,703,395	3,795,112	-----
Foundry and machine shop products, n.e.c.....	64,312,064	22,839,676	4,700,179	20,877,674	9,103,813	4,789,220
Machinists tools.....	1,957,578	1,091,538	15,740	622,390	227,090	-----
Motors (gas, water, etc.) and gas generators.....	453,714	439,042	2,712	8,143	5,817	-----
Pumps and pumping equipment.....	8,775,423	4,348,809	30,557	3,684,704	681,353	-----
Refrigerators and refrigerating and ice-making apparatus.....	515,382	506,127	-----	122,820	6,429	-----
Transportation equipment, air, land and water.....	6,666,991	2,051,803	136,909	198,680	2,352,748	1,126,882
Aircraft (non).....	176,116	148,744	-----	27,692	-----	-----
Boats, steel and wooden (small).....	159,000	2,173	-----	15,351	65,276	-----
Carrriages and wagons.....	17,786	22,060	146	592	21,688	-----
Locomotives, steam.....	6,398	-----	-----	-----	6,398	-----
Motor vehicles, passenger.....	146,176	37,141	13,109	10,950	84,606	-----
Motor vehicles, trucks.....	3,948,573	147,523	123,054	73,865	2,170,869	1,186,882
Railway cars, freight.....	2,158,408	2,121,522	-----	-----	520	-----
Miscellaneous.....	176,642,451	62,124,699	1,870,747	26,303,460	27,786,337	58,396,938
Building, miscellaneous.....	23,217	3,371	5,101	10,460	6,085	-----
Coal.....	2,256,249	200,070	4,125	380,107	395,974	1,335,973
Crochets.....	86,355	5,286	-----	174	19,995	-----
Electric wiring and fixtures.....	19,544,083	14,066,170	237,068	3,098,644	2,144,361	-----
Furniture, including stove and office fixtures.....	10,551,886	5,229,292	3,409	1,443,544	346,229	3,209,372
Instruments, professional and scientific.....	459,375	224,774	108	132,949	92,522	-----
Mattresses and bed springs.....	44,010	127,846	-----	660	504	-----
Shirts and patterns.....	17,794	12,588	-----	4,688	518	-----
Paper products.....	61,852	148,666	170	4,992	7,744	-----
Paving materials and fixtures, n.e.c.....	34,976,148	4,803,177	16,460	3,444,092	3,449,255	23,080,848
Petroleum products.....	32,327,442	7,141,852	163,761	8,725,148	9,745,651	5,911,426
Photographic apparatus and materials.....	62,062	144,150	1,051	2,115	14,368	-----
Plumbing supplies, n.e.c.....	17,370,510	11,285,589	43,031	1,026,119	1,564,888	3,123,113
Shells apparatus and supplies.....	57,112	18,654	-----	5,273	15,483	-----
Roofing materials, n.e.c.....	4,725,044	3,599,480	12,845	406,532	746,867	-----
Rubber goods.....	1,381,312	226,953	135,995	68,495	57,974	775,973
Flues and other packing, pipe and boiler covering, and gaskets... Electrical economy and stage equipment.....	787,518	674,563	4,036	86,281	22,030	-----
Window shades and fixtures.....	98,994	58,974	-----	-----	-----	-----
Other materials.....	119,654	109,006	342	2,303	7,285	-----
	51,469,932	14,026,376	985,159	7,243,772	8,579,112	20,119,993

- 1/ Includes material orders placed on P.W.A. projects financed by the Emergency Relief Appropriation Act of 1935.
- 2/ Does not include material orders placed on projects for which contracts were awarded before March 15, 1934. Includes projects financed by E.F.C. Mortgage Company.
- 3/ Does not include material orders placed on projects for which contracts were awarded before July 1, 1934.
- 4/ Material orders placed on P.W.A. projects financed by E.R.A.A. included under P.W.A.
- 5/ Includes material orders placed to December 31, 1936. National Youth Administration projects include material orders placed to November 30, 1936.
- 6/ Includes material orders placed for projects operated by W.P.A. which are not classified in detail.

Source: Bureau of Labor Statistics, Division of Construction and Public Employment

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Table III

Wholesale Commodity Prices

Commodities	Average price, February 1937	
	Percent of all-commodity index	Percent of 1929 average price
<u>Building materials:</u>		
Brick and tile	105.4	96.5
Cement	110.7	104.0
Lumber	114.7	105.5
Paint materials	96.6	87.9
Plumbing and heating	89.7	81.5
Structural steel	121.3	106.7
House furnishings	101.9	93.9
<u>Metals and metal products:</u>		
Agricultural implements	107.9	94.3
Iron and steel	106.6	96.9
Motor vehicles	107.8	87.2
Nonferrous metals	103.6	84.3
<u>Textiles and clothing:</u>		
Clothing	97.6	93.6
Cotton goods	105.8	92.4
Silk and rayon	39.0	41.9
Woolen and worsted	107.9	105.4
Boots and shoes	117.5	95.4
<u>Miscellaneous:</u>		
Hides and skins	133.1	102.0
Bituminous coal	112.9	106.7
Petroleum products	68.5	82.9

Source: Bureau of Labor Statistics.

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Table IV

Commodity Prices

Commodities	Prices		
	1936	1937	
	March 25	Feb. 25	March 25
Textiles:			
Cotton, mid'g, Galveston	(Cents) 11.47	12.77	14.12
Print cloths, 38 $\frac{1}{2}$ inch	" 5-7/16	7-5/8	8
Wool, territory fine, Boston	\$.93-.95	\$1.12-1.15	\$1.12-1.15
Silk, crack double extra	\$1.82-1.87	\$1.94-1.99	\$2.03-2.08
Metals:			
Pig iron, no. 2 foundry	(Cents) \$19.50	\$20.50	\$24.00
Steel bars, Pittsburgh	" 1.85	1.85	2.45
Copper, electrolytic, Conn Valley	" 9 $\frac{1}{2}$ -9 $\frac{3}{4}$	14	16 $\frac{1}{2}$
Zinc, East St. Louis	" 4.90	6.80	7.50
Lead, pig, New York	" 4.60-4.65	7.00-7.05	6.95-7.00
Tin, Straits, New York	" 47 $\frac{1}{2}$	55 $\frac{1}{2}$	66-1/8
Coal and Oil:			
Coal, bituminous, Pa., smokeless	\$2.55	\$2.45-2.60	\$2.45-2.60
Petroleum, crude, Kansas, Oklahoma	\$.94-1.18	\$1.06-1.30	\$1.06-1.30
Miscellaneous:			
Hides, heavy native steers (Chicago) (Cents)	" 13	16	17
Rubber, plantation	" 15-15/16	22	26
Moody's price index	169.6	207.8	224.2
Journal of Commerce index	134.5	163.1	175.0

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Table V

Relative Supply of Farm Labor
January 1, 1936, and January 1, 1937 ^{1/}

<u>Region</u>	<u>Jan. 1, 1936</u>	<u>Jan. 1, 1937</u>
New England	122.4	106.1
Middle Atlantic	119.4	97.4
East North Central	119.3	100.8
West North Central	140.5	136.9
South Atlantic	116.5	99.2
East South Central	123.8	104.8
West South Central	144.5	129.9
Mountain	138.6	120.1
Pacific	122.1	111.8
United States	127.2	111.4

States reporting largest relative supply of
farm labor, January 1, 1937:

Nebraska	182	Missouri	142
South Dakota	167	Montana	133
Oklahoma	162	Texas	132
Kansas	158		
North Dakota	152		

States reporting smallest relative supply of
farm labor, January 1, 1937:

Michigan	89	New Jersey	97
Ohio	93	Vermont	98
Pennsylvania	94	North Carolina	99
South Carolina	96	Georgia	99

^{1/} "Relative supply" is a ratio of the reported supply in percent of normal to the reported demand in percent of normal.

Source: Crops and Markets, February 1937.

Table VI

Distribution of Federal Expenditures
by Fiscal Years,
1933-1937, inclusive

(in millions of dollars)

	1933	1934	1935	1936	1937			1938 Budget estimate
					July 1 to Feb. 28	Mar. 1 to June 30	Total	
Emergency con- servation work	14.3	300.1	225.4	570.2	237.5	105.0	342.5	330.0
Public highways	143.5	221.6	274.7	234.5	244.7	91.1	335.8	260.0
Rivers and harbors	114.1	122.8	201.0	225.2	171.0	115.7	286.6	170.0
Public buildings	56.3	72.3	45.7	55.3	45.3	26.2	70.0	52.1
Reclamation projects	23.4	22.6	39.9	46.6	34.1	33.6	67.7	57.0
CWA	-	212.0	-	-	-	-	-	-
PWA	-	77.4	202.3	242.5	228.8	126.5	355.3	214.0
WPA	-	-	-	1,205.7	1,205.0	221.7	1,426.7	1,200.0
Agricultural payments	-	247.4	722.9	522.3	247.1	222.3	469.4	422.4
Resettlement Administration	-	-	9.2	10.0	3.6	102.1	105.7	30.0
TVA	-	12.4	27.5	24.3	22.4	15.5	37.9	40.0
FERA	-	740.3	1,237.5	476.3	3.6	-	3.6	-
Other	117.8	201.0	421.2	142.0	122.0	111.7	233.6	254.2
Total	222.2	2,012.4	2,272.9	2,011.7	2,222.2	1,215.7	3,437.9	2,222.2
Recoverable items	22.0	420.0	1,115.0	222.0	62.4	22.0	97.4	

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Table VII
 Index of Per Capita Emergency Expenditures
 United States average 1934-1936 = 100
 (Fiscal years)

	1933	1934	1935	1936	1937
New England	10.14	64.96	74.06	100.15	101.78
Middle Atlantic	7.86	64.46	97.48	116.88	126.91
East North Central	10.99	84.86	82.69	100.46	116.30
West North Central	17.54	98.18	152.96	93.26	150.25
South Atlantic <u>1/</u>	16.49	81.22	98.76	82.11	83.43
East South Central	13.40	83.08	120.71	89.01	103.14
West South Central	15.25	80.57	128.46	82.27	107.86
Mountain	52.19	166.71	303.29	257.80	267.63
Pacific	19.67	81.26	118.62	157.34	160.86
United States	14.13	81.80	111.61	106.62	122.69

1/ Excluding District of Columbia.

Source: Computed from data supplied from Division of
 Accounts and Deposits.

- 24 -

Table VIII

Receipts from Sale of Farm Products
including Rental and Benefit and Soil Conservation Payments
(in millions of dollars)

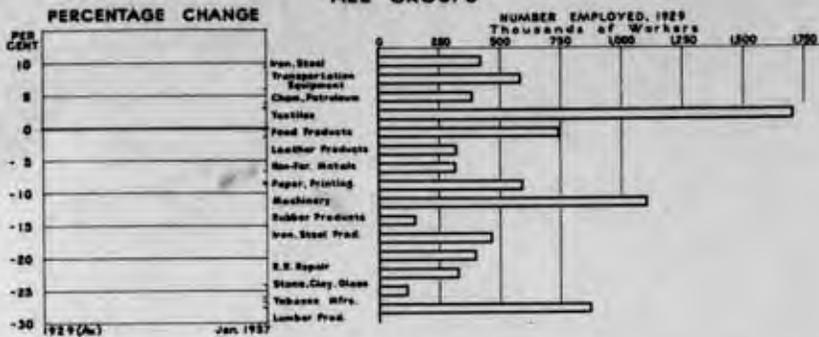
	1932	1933	1934	1935	1936
New England	145	147	167	178	202
Middle Atlantic	381	401	472	519	580
East North Central	787	881	1,059	1,317	1,508
West North Central	1,039	1,174	1,511	1,717	1,933
South Atlantic	401	514	718	735	746
East South Central	267	312	428	478	492
West South Central	509	690	772	821	796
Mountain	246	280	381	462	476
Pacific	<u>460</u>	<u>473</u>	<u>601</u>	<u>713</u>	<u>773</u>
Grand Total	4,235	4,872	6,108	6,940	7,507

Source: Department of Agriculture.

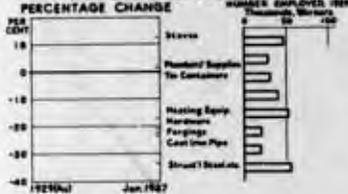
EMPLOYMENT. BY GROUPS OF INDUSTRIES

Percentage Change in Number of Workers Employed 1929 (Av) to January 1937

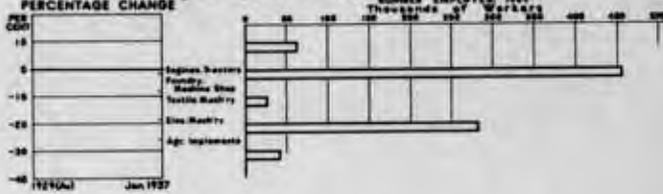
ALL GROUPS



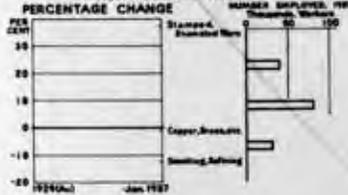
Iron and Steel Products



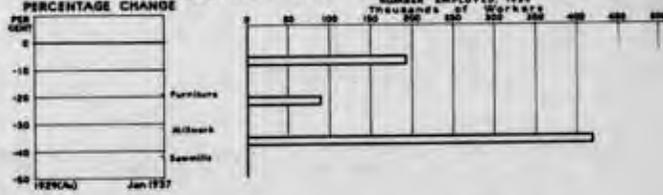
Machinery (Excluding Transportation Equipment)



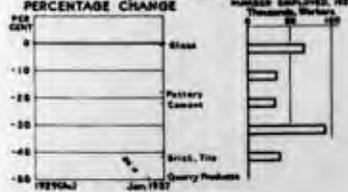
Non-Ferrous Metals



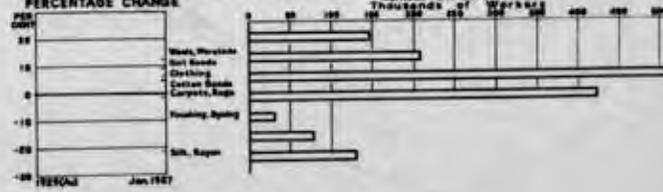
Lumber and Products



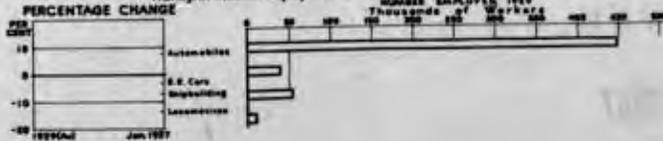
Stone, Clay and Glass Products



Textiles and Products



Transportation Equipment

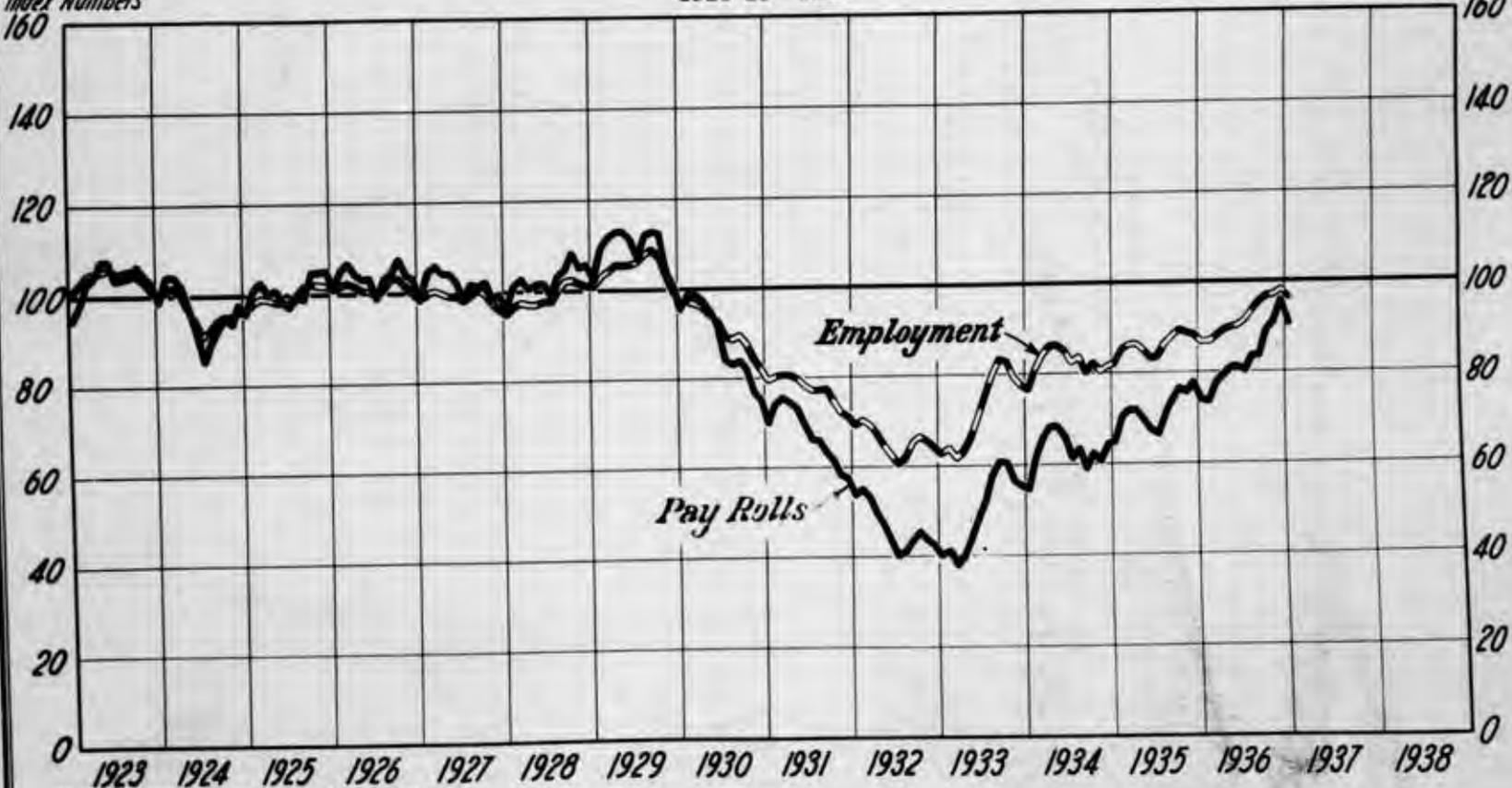


EMPLOYMENT & PAY ROLLS ALL MANUFACTURING INDUSTRIES

1923-25=100

Index Numbers
160

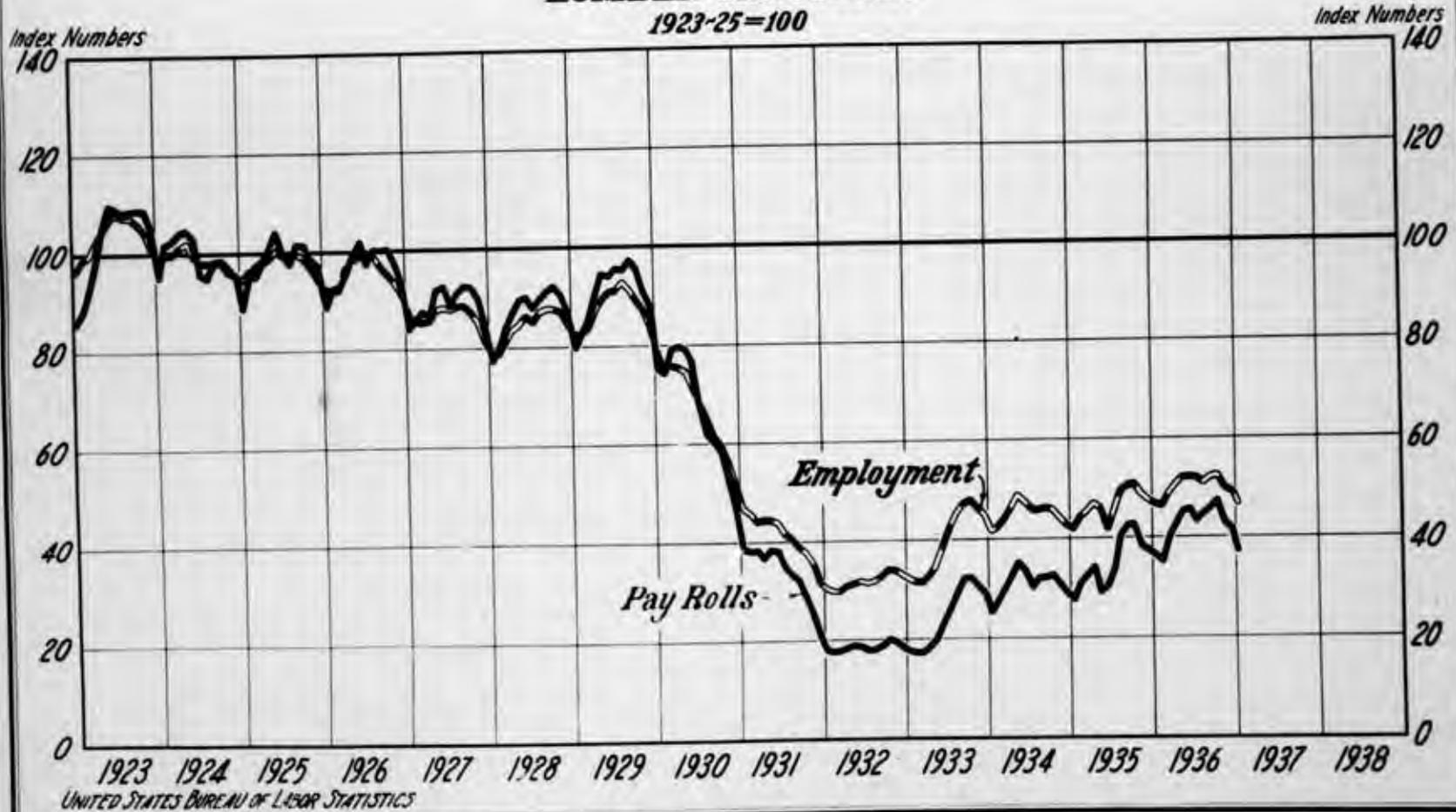
Index Numbers
160



UNITED STATES BUREAU OF LABOR STATISTICS

EMPLOYMENT & PAY ROLLS LUMBER: SAWMILLS

1923-25=100



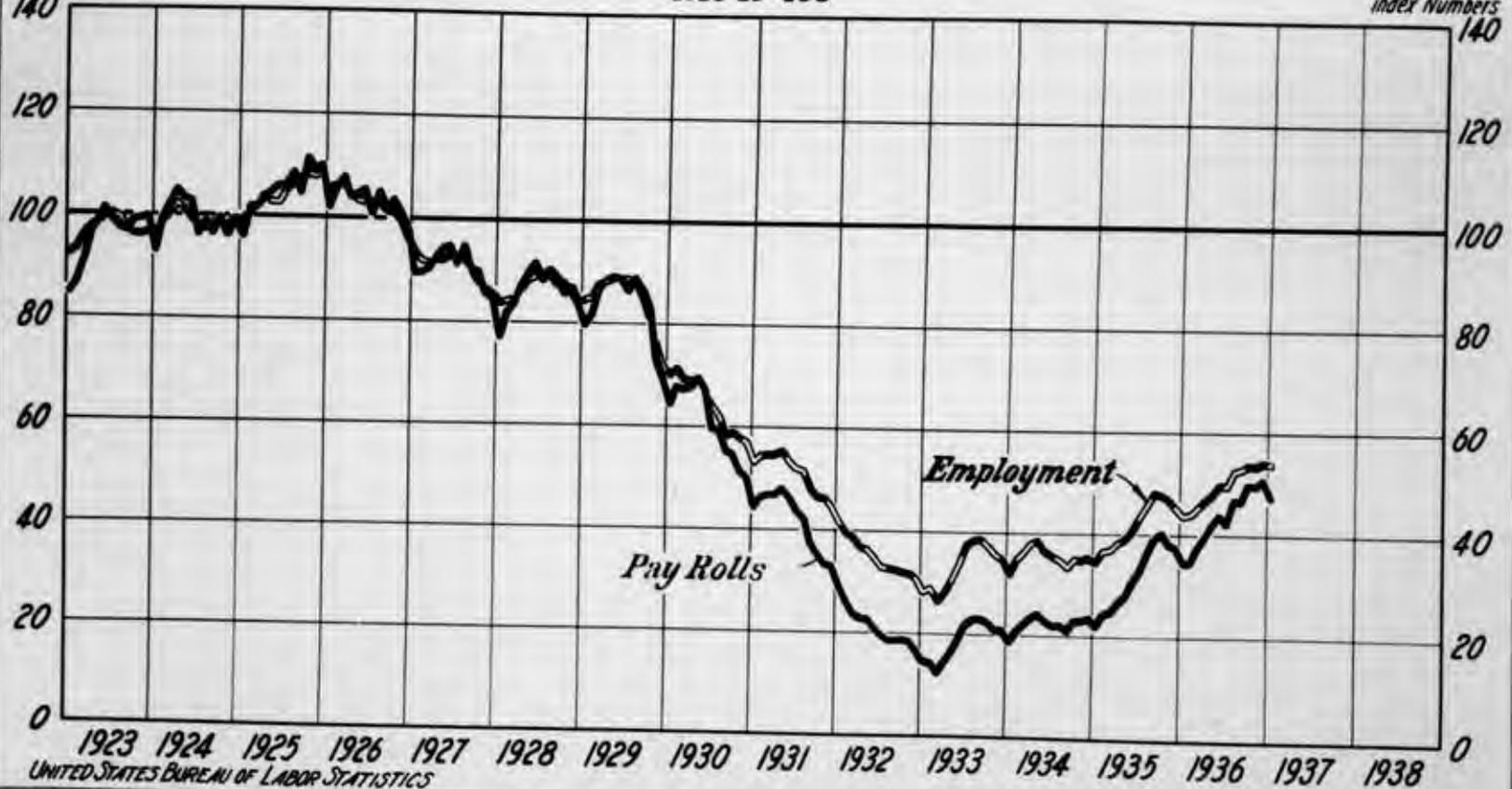
UNITED STATES BUREAU OF LABOR STATISTICS

EMPLOYMENT & PAY ROLLS LUMBER: MILLWORK

1923-25=100

Index Numbers
140

Index Numbers
140

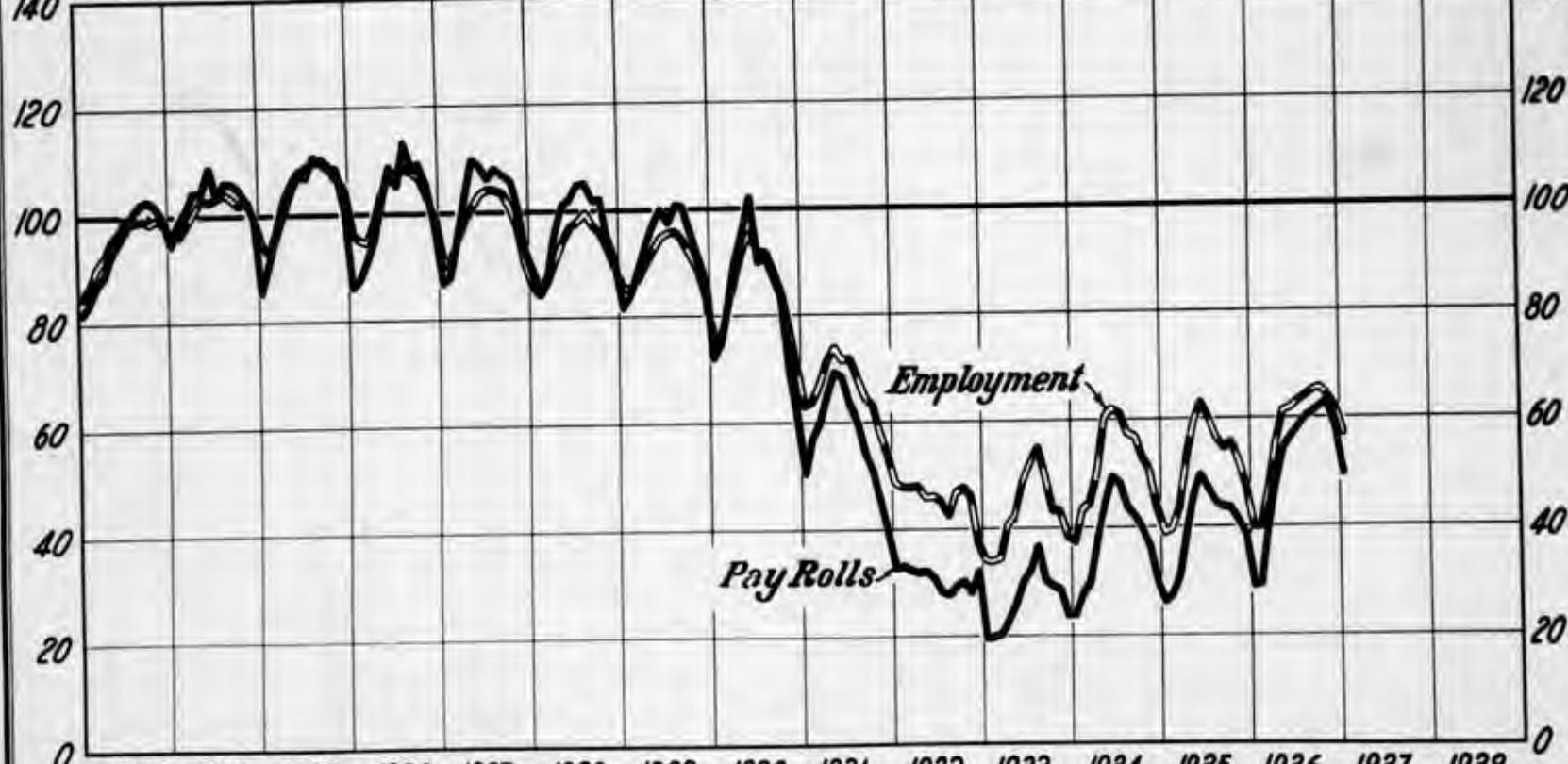


UNITED STATES BUREAU OF LABOR STATISTICS

EMPLOYMENT & PAY ROLLS CEMENT 1923-25=100

Index Numbers

Index Numbers



Employment

Pay Rolls

UNITED STATES BUREAU OF LABOR STATISTICS

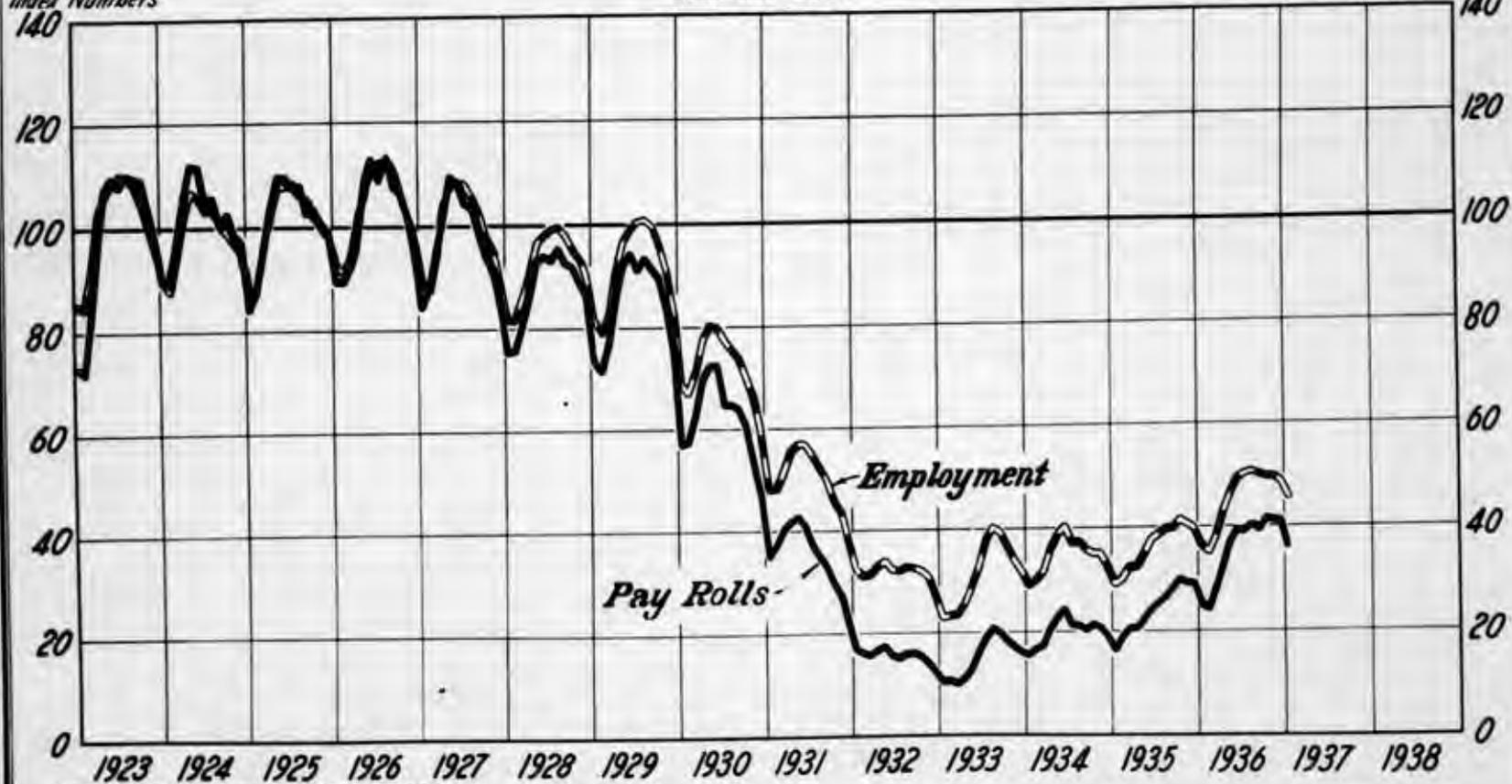
156

EMPLOYMENT & PAY ROLLS BRICK, TILE, & TERRA COTTA

1923-25 = 100

Index Numbers
140

Index Numbers
140



UNITED STATES BUREAU OF LABOR STATISTICS

EMPLOYMENT & PAY ROLLS STRUCTURAL & ORNAMENTAL METALWORK

1923-25=100



UNITED STATES BUREAU OF LABOR STATISTICS

EMPLOYMENT & PAY ROLLS STEAM & HOTWATER HEATING APPARATUS & STEAM FITTINGS

Index Numbers

Index Numbers



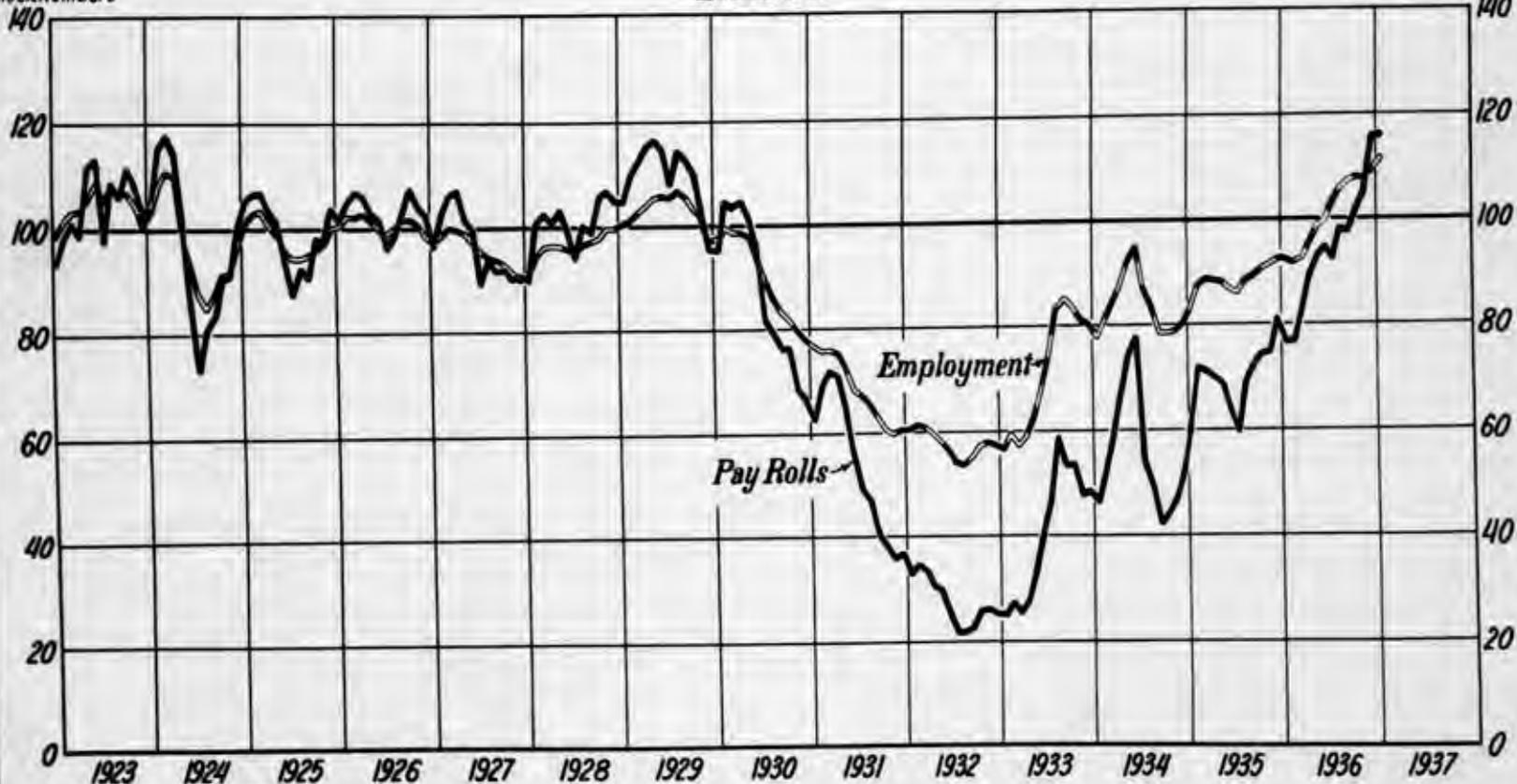
UNITED STATES BUREAU OF LABOR STATISTICS

EMPLOYMENT & PAY ROLLS BLAST FURNACES, STEEL WORKS, and ROLLING MILLS

1923-25=100

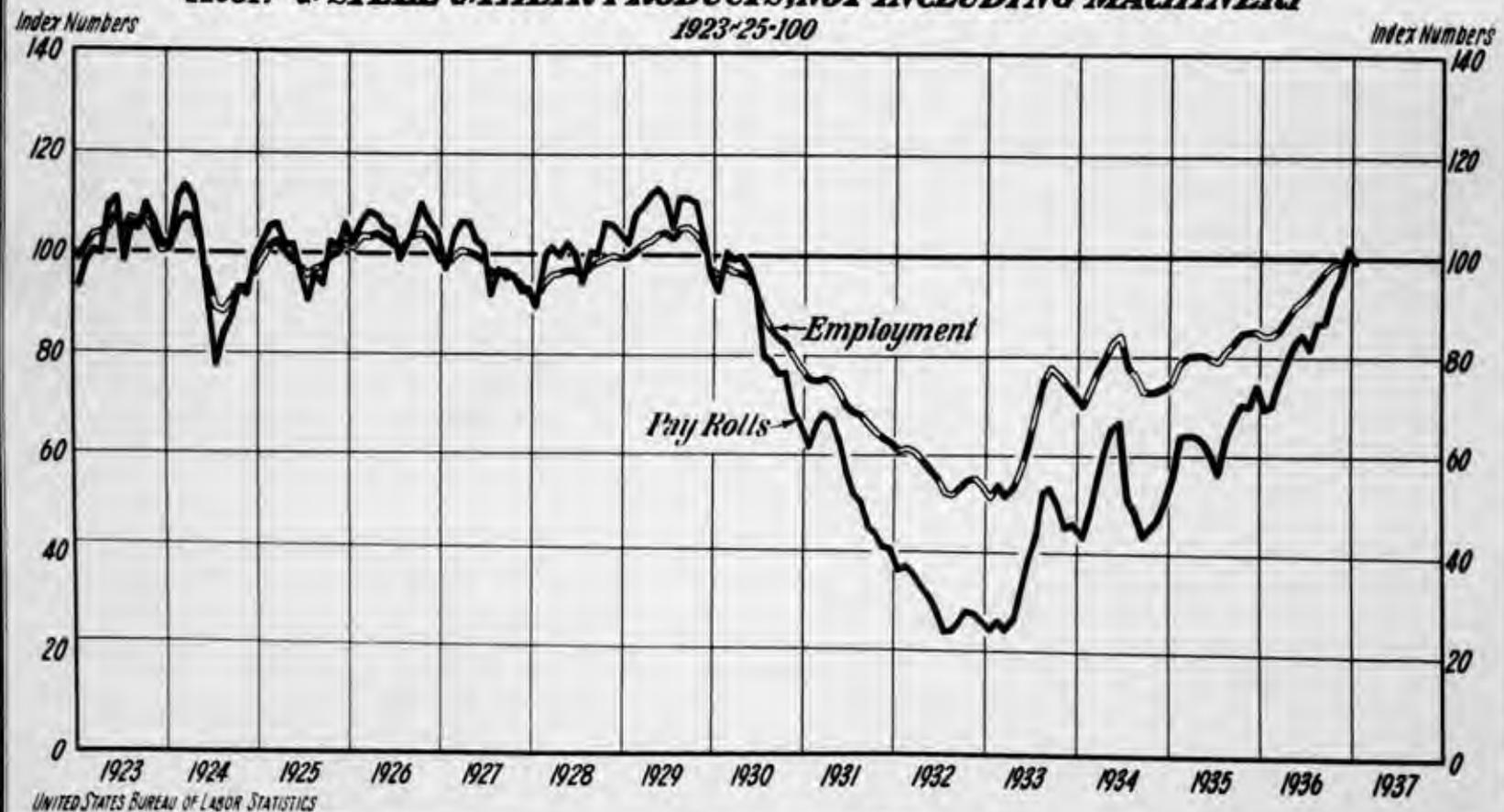
Index Numbers

Index Numbers



UNITED STATES BUREAU OF LABOR STATISTICS

EMPLOYMENT & PAY ROLLS IRON & STEEL & THEIR PRODUCTS, NOT INCLUDING MACHINERY 1923-25=100



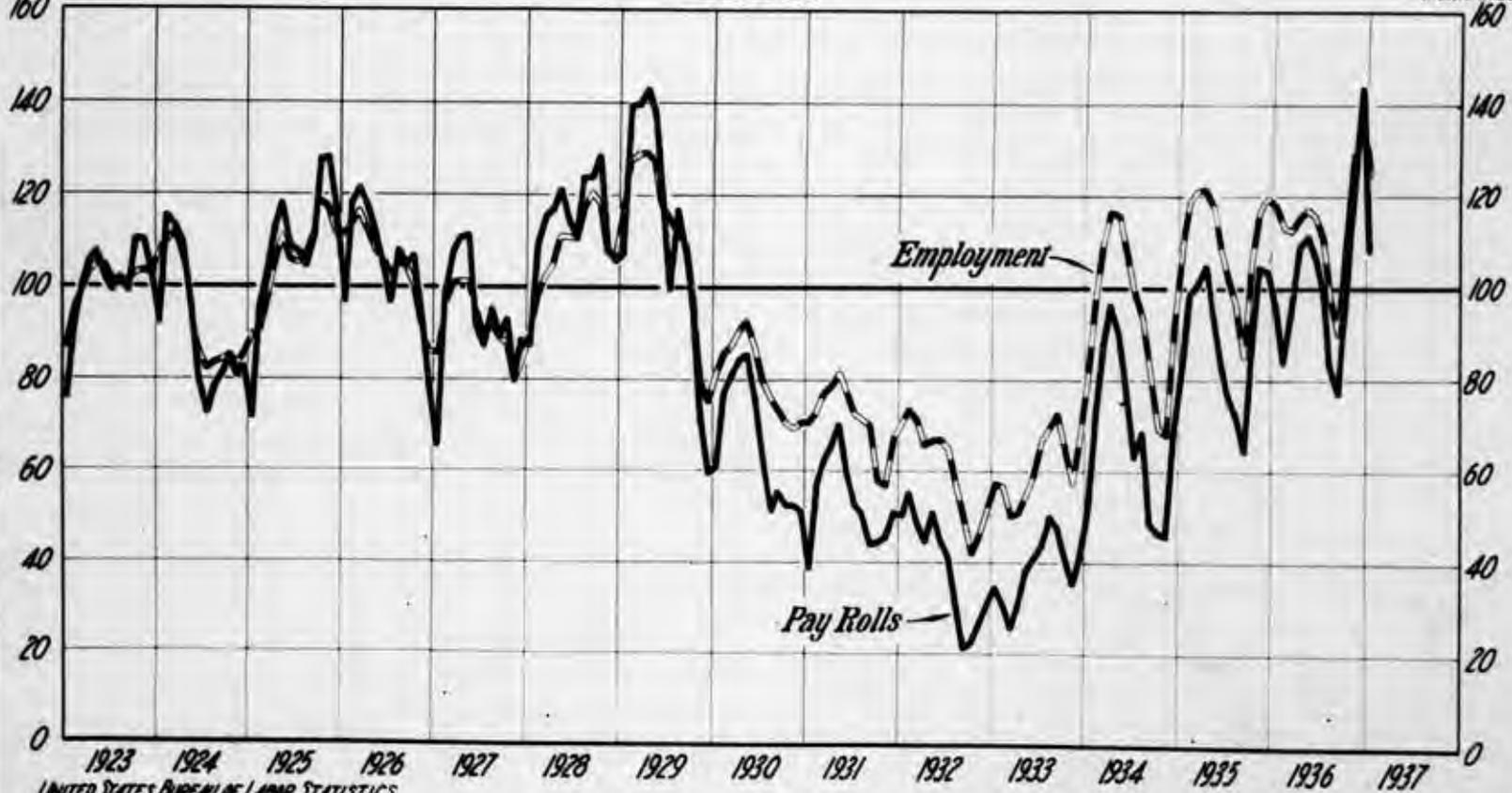
UNITED STATES BUREAU OF LABOR STATISTICS

EMPLOYMENT & PAY ROLLS AUTOMOBILES

1923-25=100

Index Numbers
160

Index Numbers
160

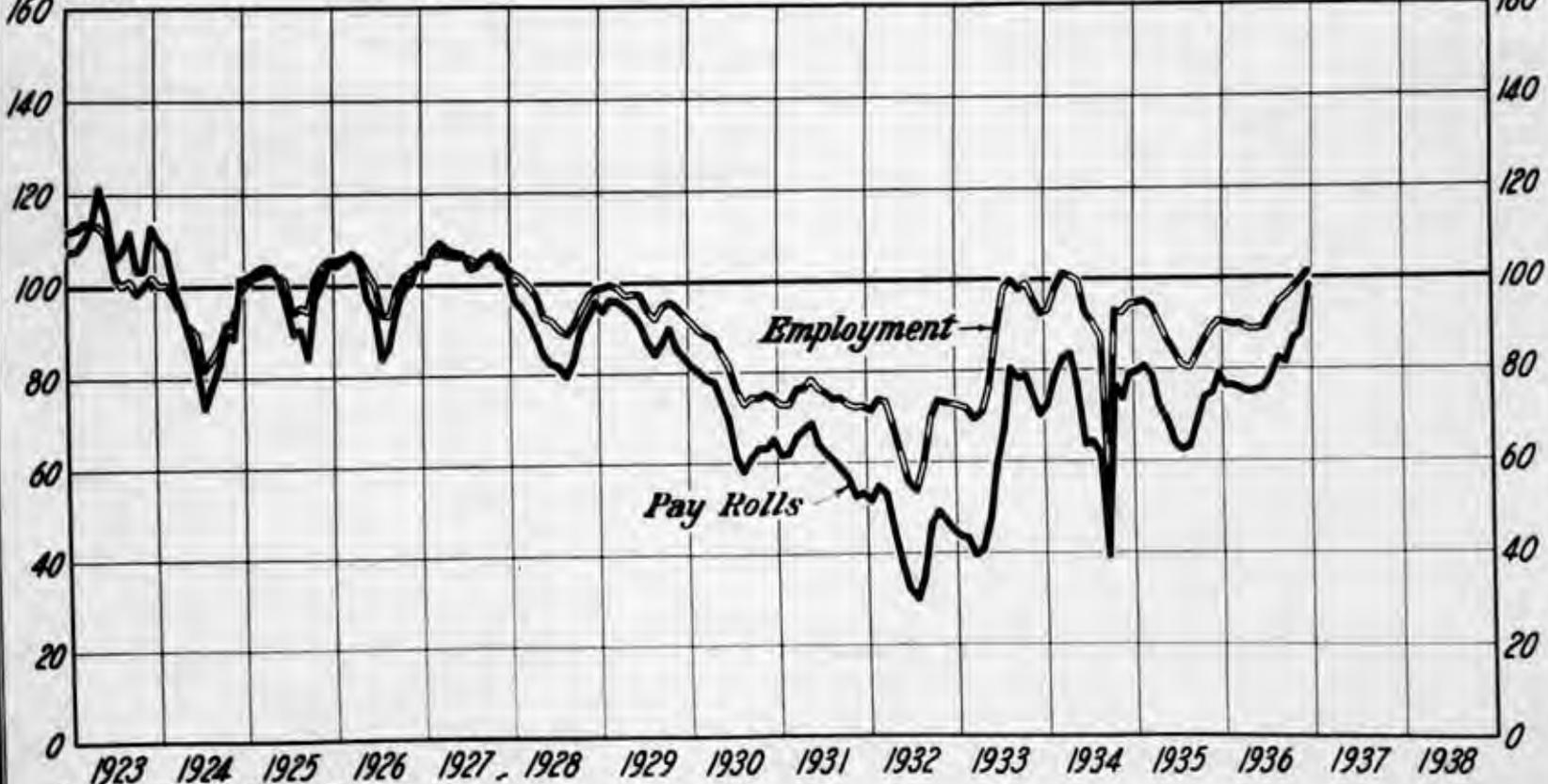


UNITED STATES BUREAU OF LABOR STATISTICS

EMPLOYMENT & PAY ROLLS COTTON GOODS 1923-25=100

Index Numbers
160

Index Numbers
160



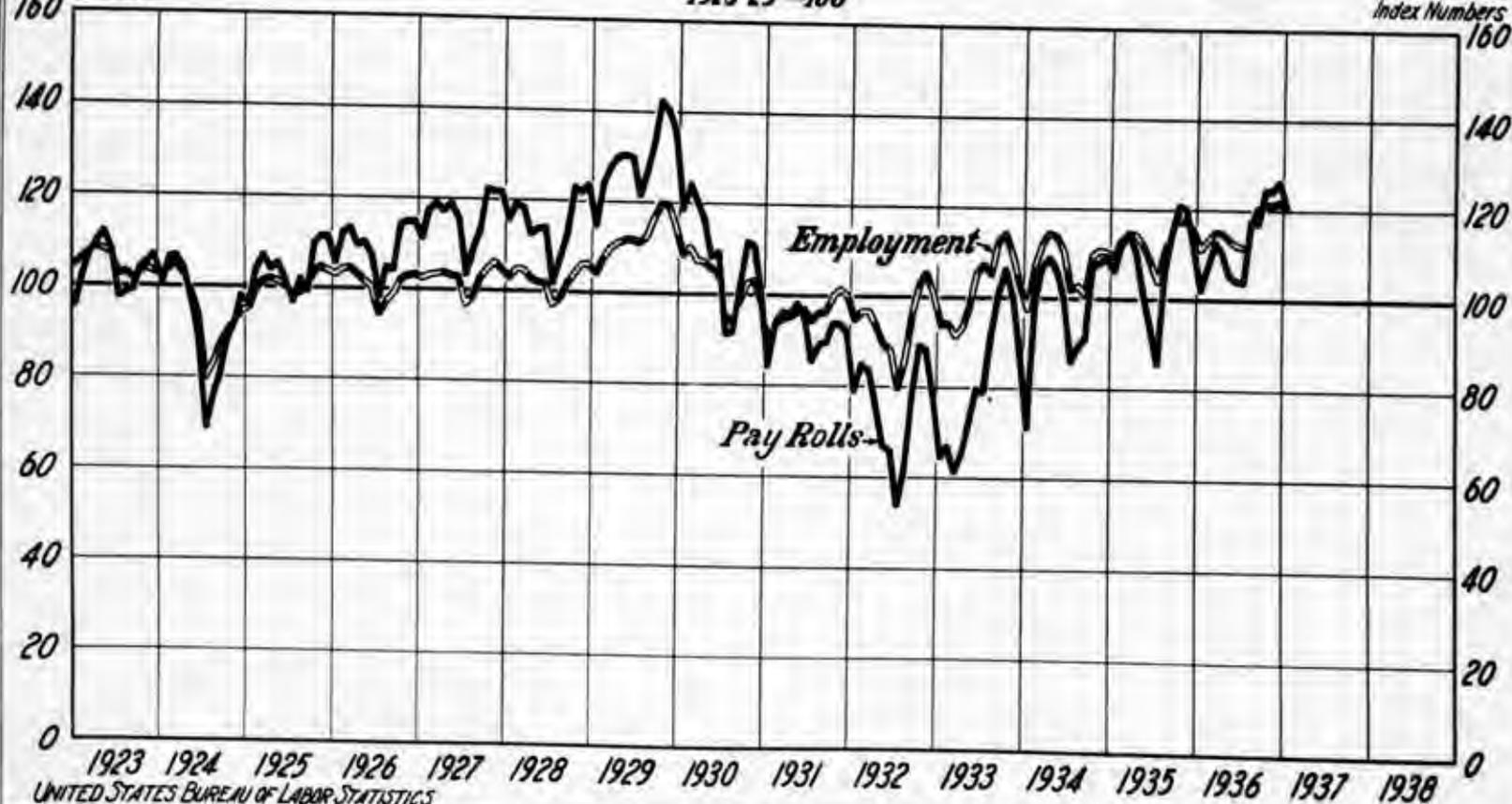
UNITED STATES BUREAU OF LABOR STATISTICS

163

EMPLOYMENT & PAY ROLLS KNIT GOODS 1923-25=100

Index Numbers
160

Index Numbers
160



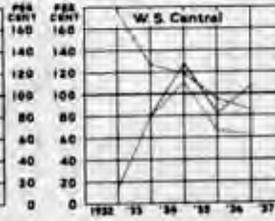
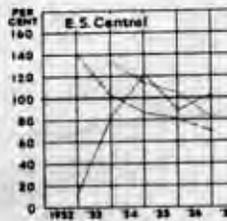
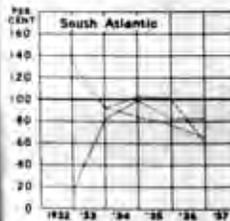
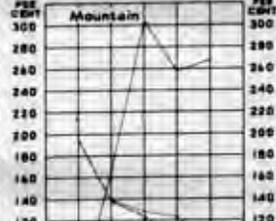
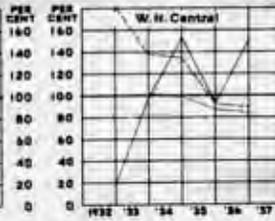
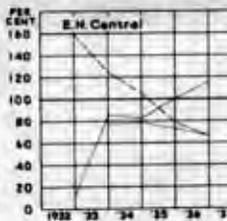
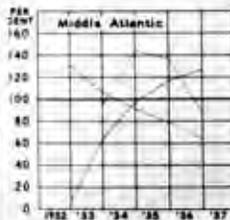
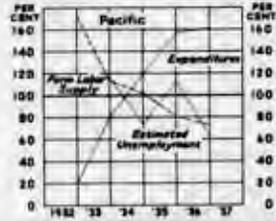
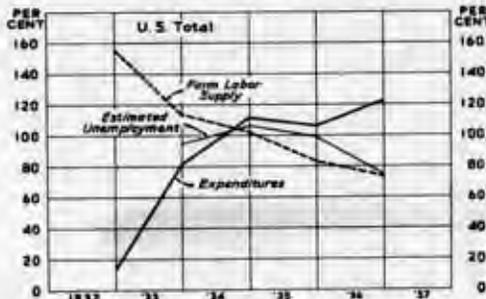
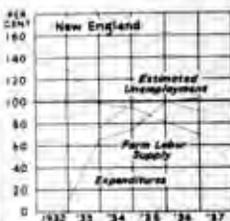
UNITED STATES BUREAU OF LABOR STATISTICS

164

FEDERAL EMERGENCY EXPENDITURES AND UNEMPLOYMENT INDEXES By Regions



PER CAPITA EMERGENCY EXPENDITURES* FARM LABOR SUPPLY RATIO
AND ESTIMATED PERCENTAGE OF POPULATION UNEMPLOYED†
U.S. Average 1934-1936=100 for All Regions

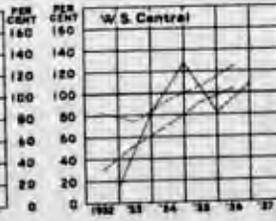
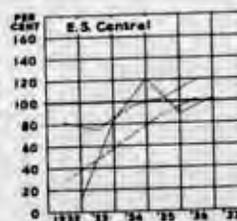
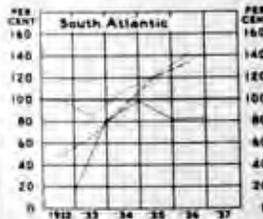
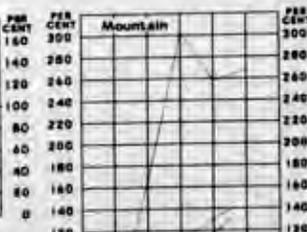
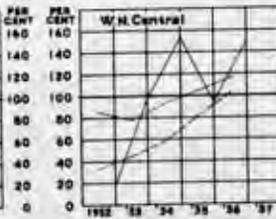
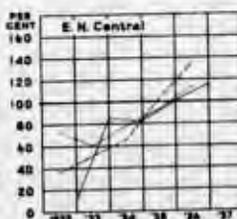
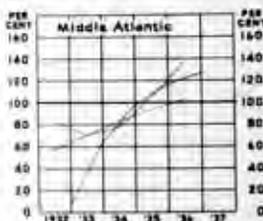
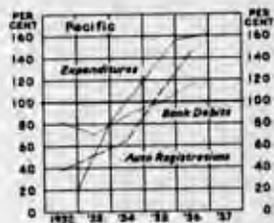
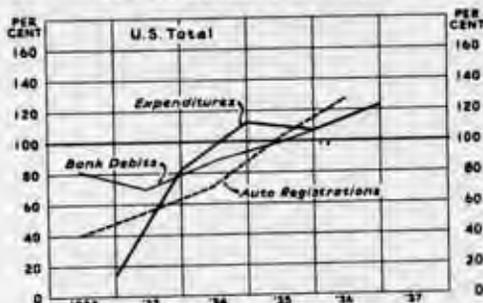
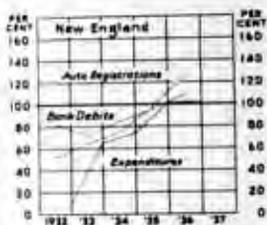


* Expenditures by fiscal year.
† Based on reported Farm Labor Supply as reported elsewhere, July 1st figures.
‡ Based on total unemployment as reported by U.S. Employment Service, June 1st for regional distribution, July 1st figures except April 1st 1934.

FEDERAL EMERGENCY EXPENDITURES AND BUSINESS RECOVERY By Regions



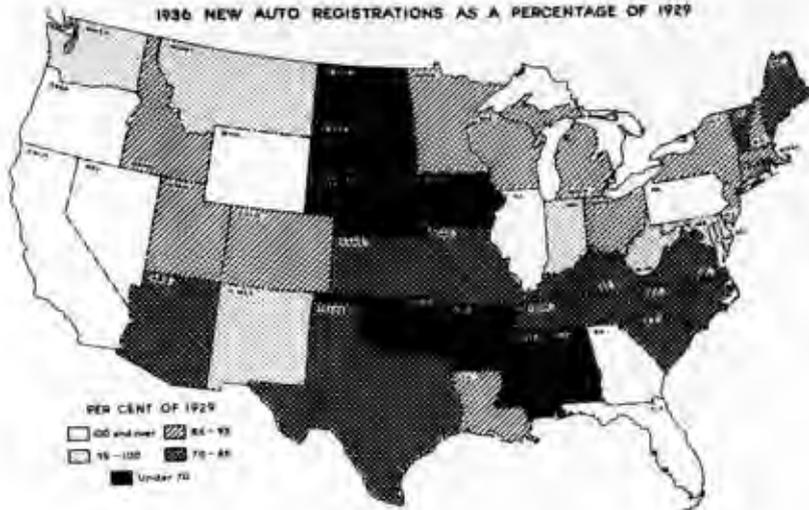
**PER CAPITA EMERGENCY EXPENDITURES, BANK DEBITS
AND NEW PASSENGER CAR REGISTRATIONS**
U.S. Average 1934-1936=100 for All Regions



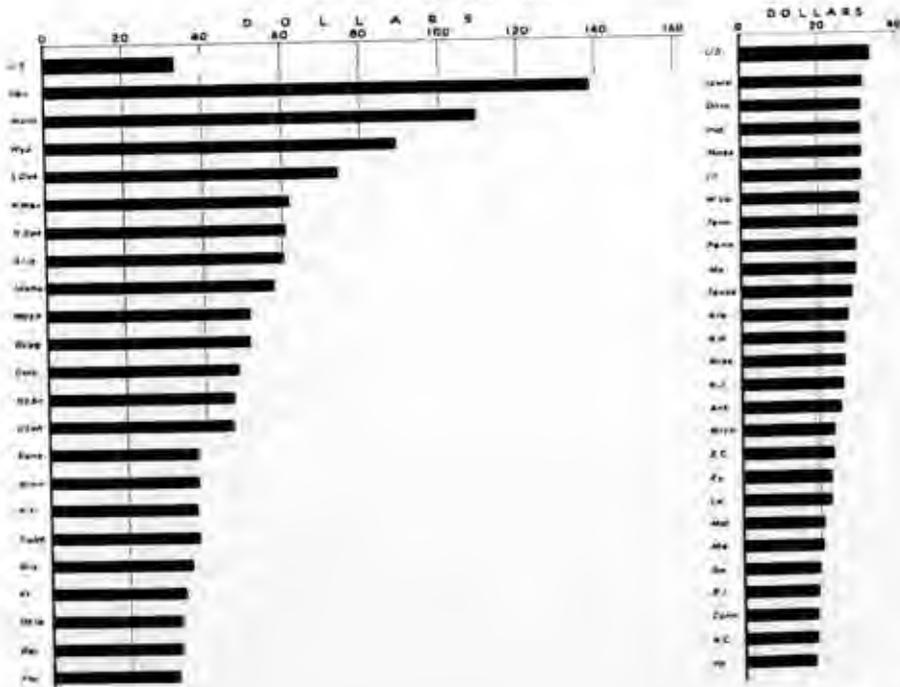
*Expenditures by fiscal years; Bank Debits and Auto Registrations by calendar years

NEW PASSENGER CAR REGISTRATIONS AND FEDERAL EMERGENCY EXPENDITURES By States

1936 NEW AUTO REGISTRATIONS AS A PERCENTAGE OF 1929



PER CAPITA EMERGENCY EXPENDITURES
EXCLUDING A.A.A. AND RENTAL AND BENEFIT PAYMENTS
Fiscal Year 1937



Map of the United States of America
Source: Bureau of Economic Warfare

SPECULATIVE COMMODITIES AND UNEMPLOYMENT PROGRAMS

The report on restricting Federal purchase of materials, in industries showing speculative increases, is excellent, except for the suggestion that such purchases should be related to the unemployment situation in the separate States.

The discussion of unemployment by regions is not thorough enough to justify the recommendations made. The statistics quoted are not substantial enough to justify the interpretations placed on them. The use of this material weakens an otherwise excellent report.

I suggested that the report would be greatly strengthened if it stopped with a discussion of prices, materials, and purchasing, with no reference to unemployment. The remedy for purchases of speculative materials under the works programs is indicated in the report - when analysis of general business conditions shows that certain industries are out of line, a warning can be issued to all Government agencies purchasing through Procurement Division to restrict purchases in those lines. Directors of works programs can be advised to eliminate projects calling for speculative materials as rapidly as possible and shift employment to other types of projects.

This is a highly constructive suggestion. It is weakened, rather than strengthened, by the addition of employment data which do not meet the problem.

Federal policy concerning purchases of steel could not be related to the unemployment situation on a regional basis even if information were available. Decisions about further purchases of steel must be related to the total picture of the steel industry, or to price

relationships between steel and other commodities, on a national basis, not to the employment situation in Montana or North Carolina. Overstimulation of industries by Government purchasing or inequalities in the price structure are national, not local, problems.

The question of continuing a Government construction project in California could not be decided simply on the basis of index numbers of steel prices and local unemployment. The need for the project is not determined by either steel production in California or by unemployment in California. The labor for large projects comes from a territory far beyond State lines. The final decision to continue or discontinue such a project would probably be made on an engineering basis - of commitments already made and losses involved in suspension of work. Reduction of steel purchases would probably be made by eliminating new projects in Louisiana or New Hampshire. Any artificial simplification of the issues would yield "benefits" more apparent than real.

* * *

Following are a few specific criticisms of the employment analysis as given in the report. No revisions in the report to meet the following objections would make the discussions adequate because the criticisms are illustrative of a much larger number of objections.

My recommendation on the report was specific - that no employment statistics are adequate, and that inadequate discussion served only to increase the confusion in a highly confused situation.

The best figures in the report are the employment indexes of the Bureau of Labor Statistics. These indexes are on the whole excellent for separate industries, although some of the industries are weak. Automobiles and textiles are probably good but the clothing industries are all inadequate.

- 3 -

Lumber is probably one of the weakest industries, because the reporting system deals only with fair-sized, well established firms. In the lumber industry there is at present rapid development of "family mills" in the Southern States, where two or three families get a portable sawmill and cut wood far from social security and factory inspection, and also far from statistical reports. They are taking business away from the old firms because their overhead is low. The low employment index for reporting firms in the sawmill industry may reflect not unemployment but merely the transfer of business from well-established reporting firms to small irresponsible ones.

In New York State, where we have had complete experience with three business cycles (and where this method of employment indexes was invented), we found the index method is at its weakest in the rising phase of the business cycle, because so many changes are taking place in the character of industry that statistical reports could not catch.

This is the best material used in the report. All the other figures are much weaker.

In Nathan's estimates of unemployment the best figures, covering about one-quarter of the workers, are derived from the BLS. His other material (except that of manufacturing and railroads) is much weaker than the BLS reports. His estimates are useful as a general index of trend only, and they too grow increasingly weak in the upward phase of the business cycle.

Figures quoted from the U. S. Employment Service depend entirely on the efficiency of the separate State administrations in maintaining their card files in order. This is not a basis for allocation of Government funds.

According to their figures, Pennsylvania has more unemployed than New York State. Casual inspection indicates either that the report confused figures for New York City and New York State or that registration in New York is abnormally low. Since the New York employment system has been in continuous operation since the World War this is not likely. The variations are probably due to incomplete registration of WPA workers. Pennsylvania figures indicate that the offices have not cleaned their card files.

To allocate funds on such a basis would only encourage States to pad their files. This is the basic difficulty now in "relief rolls."

The regional estimates used by Mr. Daggit combine the Nathan estimates of unemployment with the U. S. Employment Service registrations, multiplying the weaknesses of both.

The report takes no account of need due to other factors than unemployment, such as low income or the social causes of dependency.

It also takes no account of labor migration. The whole problem of unemployment in the District is a problem of migration. The number of jobs increased greatly, but the number of new workers who came in increased much faster. The same thing is true for the State of Washington because drought families are coming West from the Dakotas. In California, the migration is determined by Hollywood and the climate.

* * *

The statistics of the BLS, the U. S. Employment Service, and Nathan's estimates are all compiled carefully with much hard work and a high degree of integrity. The limitations are unavoidable.

These agencies have shown great restraint in not drawing more conclusions about unemployment than the quality of the material would justify.

April 1, 1937

Saw Pres at 9:15 7.14

April 2, 1937

Called on the President. Gave him a copy of Haas' report on selective spending. The President was very much interested and told me that he had been thinking about doing something along these lines. He feels that in order to accomplish selective spending we would have to get legislation. I do not agree with him. He said Mark Sullivan would accuse us of adopting a policy of collectivism. He also said it would be difficult to tell a town that they could not have a steel schoolhouse. I said, Yes, but you would tell them that they could have a brick one.

I pointed out that last year the Government spent \$250,000,000 for steel exclusive of the Navy and there was no possible excuse for spending more money for bridges at this time. He said, Well, have you not noticed that I have not been approving any more bridges and I said, I have not. He wanted to talk about this at great length and I begged him to let me get on to the bond question, which he did.

I told him about Eccles' visit last night. Then he showed me an article in the Wall Street Journal which claimed that the Federal Reserve was only buying one-tenth as many bonds as it had formerly. He said, What is the matter with them?

I told him that Eccles and I would most likely have a plan to submit to him late Saturday; that I thought it would work, but I was not sure, unless he said something about the Budget. I told him that due to Eccles' articles that the spotlight had been put on the Government in connection with spending, etc., and that if our program failed then the entire spotlight would be exclusively on him and I strongly urged him to say something this morning at his press conference.

I told him that in my heart I did not know how he felt about spending. He did not answer me, but he said that he would announce at his press conference that he was asking Bell to give him a revision of the Budget picture and that he would include this in his message when he sent up his request for relief money.

I told him that we estimated we were off \$500,000,000 or \$600,000,000 in our revenue between now and the first of July,

-2-

so he said, It is perfectly ridiculous. Helvering told me we would only be off \$350,000,000. Not having seen Helvering's figures I could not answer him.

He then asked me to call up Bell and find out how much less we would spend this year than our estimates and Bell told me about \$200,000,000, or that on that deficit, according to Bell, we would be off between \$400,000,000 and \$500,000,000 for the year ending June 30, 1937.

I told him there was not much we could do about reducing expenditures for the balance of this year, but we certainly could do something about next year, such as impounding funds.

He then told me that in his talk with Bell recently that Bell was much more worried about this fiscal year than next year and I told him that I did not think that was correct. That I just left Bell and that Bell had agreed with me that we could not do much more about the situation this year but we could do something about next year.

I was very quiet with the President, but forceful. I tried to push him and I do feel that I made more of an impression today than I had in some time.

He said, We will send the figure up for \$1,500,000,000 for relief and that ought to last us for next year. But, I said, you will say so, Mr. President, and he said, No, I will not. Then I replied, That is part of the trouble. I said, What I would like you to say is that when you have the figures for next year we will adjust the Budget picture so that the net deficit for 1937-1938 will not exceed the figures that you sent Congress in January.

I then stayed with him while he shaved and he seemed very much amused by the fact that Lord Tweedsmuir did not toast the health of the President after the President gave a toast to the King and he said, Both the English and the Canadians were very much disturbed about it. I told him that when I was at Hull's for lunch, Hull toasted both the King and the Canadian people and Lord Tweedsmuir did not respond with a similar toast and the President said that he just could not understand it.

While I was waiting to see the President I told the whole thing to Steve Early and his only answer was, If the President tells Bell to make this survey and Bell shows that we are short of revenue, then the President should go through with it and do something, but he should not ask for the survey unless he expects to do something.

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Pages 174,175:

Although dated April 1, 1937, these pages refer to Bewley's visit to HMJr at Sea Island, Georgia, 3/26/37, and have been placed in Book LXI, pages 155 A-B.

Treasury Chambers,
Whitehall, S.W.

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100.

The Chancellor of the Exchequer has received Mr. Morgenthau's important message with the greatest interest. He has discussed it with the Prime Minister and the Foreign Secretary and wishes to say how warmly they all three appreciate this evidence of Mr. Morgenthau's and - as they understand - the President's earnest desire to find some way in which the United States - possibly in conjunction with the United Kingdom - could help in preventing the outbreak of another war. Beset as they are with the difficulties and risks inherent in the present political situation in Europe, the Chancellor and his colleagues have given their most anxious consideration to this message.

In order to arrive at a proper appreciation of the possibilities of averting war it is necessary first to consider where the menace lies, and what are the causes which keep it alive. These causes are both political and economic and it is sometimes difficult to disentangle them from one another. But Mr. Morgenthau is undoubtedly right in saying that the needs of armament programmes are responsible for a good deal of the economic troubles in Europe and those programmes are in turn the result of political considerations.

The main source of the fears of war in Europe is to be found in Germany. No other country, not Italy, since she has her hands full with the task of consolidating her Abyssinian conquest, not Russia with all her military

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preparations, certainly not France, England or any of the smaller Powers, is for a moment credited with any aggressive designs. But the fierce propaganda against other nations continually carried on by the German Press and wireless under the instructions of Dr. Goebbels, the intensity and persistence of German military preparations, together with the many acts of the German Government in violation of treaties, cynically justified on the ground that unilateral action was the quickest way of getting what they wanted, have inspired all her neighbours with a profound uneasiness. Even these islands which could be reached in less than an hour from German territory by an air force equipped with hundreds of tons of bombs cannot be exempt from anxiety.

The motive for this aggressiveness on the part of Germany appears to arise from her desire to make herself so strong that no one will venture to withstand whatever demands she may make whether for European or colonial territory.

With this intention in her heart she is not likely to agree to any disarmament which would defeat her purpose. The only consideration which would influence her to a contrary decision would be the conviction that her efforts to secure superiority of force were doomed to failure by reason of the superior force which would meet her if she attempted aggression.

It is because of the belief that British forces would be available against German aggression that British

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rearmament plans have been welcomed by so many nations in Europe with a sigh of relief, and if they still feel anxious, their anxiety arises from their doubts whether this country's rearmament will be adequate or will be completed in time to act as a deterrent to German ambitions.

This being the situation in Europe as His Majesty's Government see it, they have no doubt whatever that the greatest single contribution which the United States could make at the present moment to the preservation of world peace would be the amendment of the existing neutrality legislation. Under this legislation an embargo would be imposed on the export from the United States of arms and munitions, irrespective of whether a country is an aggressor or the victim of an aggression. It is obvious that the existing neutrality law and, a fortiori, any extension of it so as to include raw materials, suits the requirements of a country contemplating an aggression, which can and would lay up large stores of war materials with the knowledge that its intended victim will, when the time comes, be precluded from obtaining supplies in one of the greatest world markets. The legislation in its present form constitutes an indirect but potent encouragement to aggression, and it is earnestly hoped that some way may be found of leaving sufficient discretion with the Executive to deal with each case on its merits. Mr. Chamberlain realises that this question is, apart from its international aspect, a matter of domestic controversy in the United States, and that

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it may well be impossible for the U.S.A. Government to take such a step even if they desired it, but in view of Mr. Morgenthau's request for the Chancellor's views he has thought that the U.S.A. Government would wish to have them expressed without reserve.

There is however another aspect of the same question. Japan in the Far East is another Power with far-reaching ambitions which affect the interests of this country in that region, not with the same intensity as those which touch her very existence, but in highly important respects. The strain upon our resources is therefore seriously aggravated by the necessity of providing for the protection of our Far Eastern and Pacific interests, especially as the most favourable moment for any enterprise in that region injurious to our position there would be precisely when we were engaged in hostilities in Europe. The conclusion of the recent German-Japanese agreement is an indication, if one were needed, that if we were seriously involved in Europe we could not count even on the neutrality of Japan. Anything therefore which would tend to stabilise the position in the Far East would pro tanto ease our position there and safeguard us against added embarrassment in the event of trouble in Europe.

The advent of the new Government in Japan may herald a change of attitude, and there are other signs that the Japanese may realise that the recent trend of their policy has not been to their advantage, and that they are contemplating a change in the direction of better co-operation

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in the Far East and with the Powers which have great interests there. We would therefore welcome an exchange of views on the possibility of taking this opportunity to try to put relations between the U.S.A., Japan and Great Britain on a footing that would ensure harmonious co-operation for the protection and development of their respective interests.

Although Mr. Chamberlain believes it to be true that the political ambitions of Germany lie at the root of the economic difficulties in Europe, he is by no means blind to the advisability of trying by all practicable means to ease the economic situation, and in various directions His Majesty's Government is now engaged in exploring the possibilities of finding some relief. The conclusion of a commercial agreement with the U.S.A. Government would in the opinion of His Majesty's Government have far-reaching effects both by its practical advantages to the two countries and by the example it would set to others. Furthermore, the State Department will by now have been informed in confidence by H.M. Ambassador of a step which His Majesty's Government contemplate taking in concert with the French Government for the purpose of exploring the possibility of securing a relaxation of quotas and other restrictions on international trade. It is proposed to invite the Belgian Prime Minister to undertake for this purpose preliminary investigations in various European capitals, and possibly also in the United States. M. van Zeeland has expressed his willingness to accept this mission, if invited, and would

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propose in the first instance to ask M. Frère, the Belgian economist, to make the first unofficial enquiries.

In connection with economic questions, there is a further matter that should be mentioned. Dr. Schacht last autumn had discussions with French Ministers on a number of topics and has more recently exchanged views with Sir F. Leith-Ross. The subject matter of these conversations (and so far as His Majesty's Government are concerned, the fact that the discussions have taken place at all) have been and are for the present to be kept secret. It is possible that these conversations may lead to more formal contacts with the German Government through the normal channels. This question is still under careful consideration by His Majesty's Government, and if no progress has been made up to date, it is because the matters raised by Dr. Schacht have concerned not so much purely economic matters, with which of course he is fully qualified to deal, but rather matters of wider political scope, more particularly the retrocession of the ex-German colonies, which have necessarily wide ramifications.

Mr. Chamberlain hopes that this frank exposition made in response to Mr. Morgenthau's message may prove helpful in clarifying the position and showing how it is regarded by His Majesty's Government. He earnestly trusts that some form of collaboration may be found possible between our two countries since he is profoundly convinced that almost any action common to them both would go far to restore confidence to the world and avert the menace which now threatens it.

On His Majesty's Service

RB

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

PARIS

Dated April 1, 1937

Rec'd 3:37 p. m.

Secretary of State

Washington.

430, April 1, 5 p. m. (GRAY)

FROM COCHRAN.

With New York offering dollars, with some repatriation of European capital from the United States and with Bank of England making available at London another important lot of (Soviet or other) gold at a price which will lead to its export to New York, dollars are plentiful here today. French fund acquired some sterling as well as dollars. There is less trading in Belga which currency has been weak due partly to risk, although slight, which Prime Minister van Zeeland has taken in entering election race against Rexist leader Degrelle. French rentes down 50 to 85 centimes perhaps in anticipation of lowering of Bank of France rate today.

There was, however, no change in the bank's rate at weekly meeting held this noon. Statement as of March 26 showed no alteration gold holdings and no new advances

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advances to the state. Coverage was 55.09 versus 55.08. Tightness expected in money market next few days as payments are made to Treasury on account of subscriptions to second tranche of defense loan. Small bankers and speculators who engaged more bonds than they can carry are having difficulty in disposing thereof and Bank of France is not helping in such cases.

I visited Rueff at the Ministry of Finance last night. Rueff told me that for the present the Treasury situation was easy. He insisted that "only on special days" was it necessary to give official support to rentes. It is the contention of my banking contacts that there has been more selling of rentes for the purpose of buying new bonds than is admitted by Rueff. There have also been important withdrawals from savings accounts, incidentally, the operations for the second half of March of the private savings banks with the Caisse des Depots showing 108 million francs withdrawals against 54 million francs deposits.

WILSON.

EA:LWW

Miss Chauncey

Mr Taylor has
talked to the
Secretary about this
and it is returned
for your files - R-

From: MR. TAYLOR

*W. Taylor
Please to me
May*

ASSISTANT SECRETARY OF STATE
WASHINGTON

Personal

April 2, 1937

My dear Mr. Secretary:

Through an oversight I omitted to give you yesterday when I had the pleasure of seeing you a memorandum on Mexican affairs which has been prepared by my instruction in the Department of State. In view of the approaching visit of Senor Suarez, the Mexican Secretary of the Treasury, and of the conversations which you will have with him, I felt that some of the information contained in this memorandum might be of service to you.

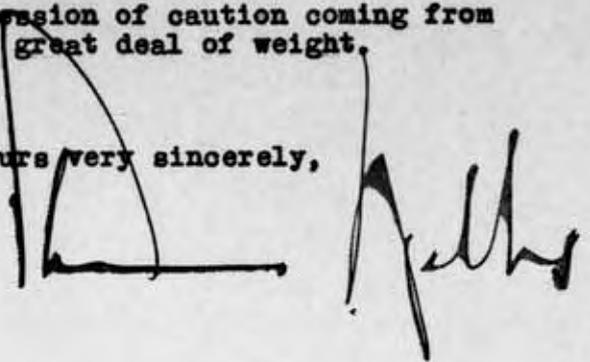
You know me well enough to know that I am not sending you the memorandum for the purpose of suggesting what should or should not be said by you to the Mexican Secretary of the Treasury. I feel, nevertheless, that if you coincide in the views indicated in this memorandum, and particularly with the suggestion on page five, and if some appropriate opportunity in your judgment is presented, a word of advice from you might be very helpful. The present Mexican Government has a peculiarly high regard for your opinion, especially because of the particularly friendly and constructive cooperation you have shown the Mexican Government during these past years, and I think

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

that such an expression of caution coming from
you would carry a great deal of weight.

Believe me

Yours very sincerely,

A handwritten signature in dark ink, appearing to be 'R. H. H. H.', written over the typed phrase 'Yours very sincerely,'.

Enclosure:
Memorandum dated
March 25, 1937.

MEMORANDUM REGARDING MEXICO'S EXPANDING PROGRAM OF DEVELOPMENT AND THE INCREASING EXPENDITURES NECESSITATED BY SAID PROGRAM

Since President Cardenas assumed office on November 30, 1934, he has been developing broad plans for highway and railroad construction, distribution of lands to agrarians with attendant expenditures for irrigation, construction of a fertilizer plant, electrical installations, operation of national petroleum reserves, et cetera. The money obtained from various sources has not by any means kept pace with the expenditures. The money spent for highways turned out to be a good investment, because it made possible a large increase in tourists.

The Mexican Government's attention was turned, as a result of the need of funds, to the re-establishment of its credit position in the United States by coming to an adjustment on the debt, and discussions are now going forward both with regard to the foreign bondholders' debt and the debt of the National Railways. The Mexican Government also made settlements with the United States and other countries involving an annual disbursement of funds for claims.

The major projects of President Cardenas' administration are three big irrigation works, the construction of

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a highway from Mexico City to Guadalajara and Nogales, the construction of a railway connecting with Lower California, the construction of a railway to Chiapas, the financing of the Laguna area where several large estates have been expropriated, the financing of the agrarian program throughout the country, and, eventually, a highway to Guatemala. In addition, the Mexican Government is contracting for the purchase of something like seven million dollars worth of equipment from the Baldwin Locomotive Works and the Pullman Company. It is understood that the American Smelting and Refining Company is to put up one million dollars in advances on freight rates to the National Railways to help make the first payment on this equipment, the remainder to be paid over a term of years.

It may be said of these projects that the irrigation works will not provide any income to the Government for some years to come. The Chiapas Railway will probably be a white elephant. It is too early to say how much the Government may have to spend initially to bring about the development of the national petroleum reserves through the new Government Petroleum Administration. In addition, the Mexican Government needs to buy considerable

new

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new equipment for its army, particularly artillery and airplanes.

While income from tourist expenditures, customs, et cetera, may be expected to increase, it is very doubtful whether it will come anywhere near the amount needed to keep up with expenditures. The President, however, appears determined to carry through all the improvements he has in mind before his term expires in 1940. As the President travels about the country, he makes commitments in different localities for various expenditures to be undertaken by the Federal Government. Consequently, the pressure on the Minister of Finance to find funds is very heavy and has resulted in his trying recently to make a loan secured by oil taxes, in his issuance of fifteen million pesos more of highway bonds, and in his seeking to obtain a loan in the United States, probably to be secured by a lien on the railways.

One of the major sources of income for Mexico is the sale of silver to the United States. Any cessation in our purchase of silver would probably result in immediate cessation of the payment of Mexican obligations in the United States. Hence, the more Mexican obligations there are in the United States, the greater the pressure to continue

our

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our policy of purchasing Mexican silver.

Concerning the tourist situation in Mexico, it is certain that any serious disturbance of a political nature would curtail the flow of tourists and the income from tourist sources.

It seems as though the Mexican Government by 1940 would have committed every possible source of revenue to the payment of obligations incurred for money already spent by then, so that the President's successor is apt to be faced with a burden of services on obligations with which he may not be able to cope. Such a situation could result in default on an unprecedented scale so far as Mexico is concerned.

It would therefore seem wise for the Mexican Government to slow up on some of its activities requiring expenditures. Politically, they cannot slow up appreciably in the distribution of lands. They cannot let go of the Laguna development. Some undertakings, such as railway projects in Lower California, Chiapas, Campeche and Yucatan could be curtailed. The three big dams now under construction have a considerable political significance from the agrarian standpoint, but one or more of them could be delayed.

As

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As previously stated, highway construction is Mexico's best investment. The Mexican Government is more apt, however, to give up the Guatemala highway (an important link in the Pan American Highway) than any other, if it has to curtail expenditures.

It is doubtful whether we have anything to gain by having Mexico develop a large debt in the United States at this time. There is also to be considered, however, the fact that if Mexico gets its income seriously compromised for the future and if funds are not available for relief, it may turn to other countries with offers of Government-controlled oil and make barter agreements or secure loans. The Mexican Secretary of Finance is shortly to confer with Secretary Morgenthau concerning at least some of the questions dealt with in this memorandum. In connection with that conference it would perhaps be wise to hold down, if possible, credit expectations in the United States and to lay emphasis on future income and on its certainties and uncertainties in relation to Mexico's growing foreign obligations.

The American Embassy at Mexico City has recently reported that Señor Suarez will want to discuss the following matters while in this country:

(a)

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- (a) To show to both our Secretary of State and our Secretary of the Treasury a statement of the Mexican Federal income and expenditures for the year 1936 in order to demonstrate the soundness of the present Federal financial position.
- (b) He is compiling a list of Government capital purchases, such as machinery, railroad equipment, irrigation equipment and railroad supplies which were bought from the United States in 1936. He placed the purchases in excess of seven million dollars and said that it demonstrated the good will of the Mexican Government toward that of the United States.
- (c) The Minister said that he had noted that the freight passing through the Panama Canal was exceedingly heavy and that he would make every effort while in the United States to have at least a million tons a year diverted and transported across the Isthmus of Tehuantepec from Puerto Mexico on the Gulf to Salina Cruz on the Pacific, via the Government-owned railway, Ferrocarril Nacional de Tehuantepec. He has in mind to discuss this matter principally with various large shipping interests, but will doubtless discuss the matter with Secretary Hull. He further stated that the Ferrocarril Nacional de Tehuantepec is now losing money and that the assistance which he is seeking would place it upon a sound basis. He said that the harbors at both ends of the railway would be in excellent condition by the end of this year.
- (d) Recently the Minister of Finance was authorized to float a 50,000,000 peso bond issue, the funds from which will be used in various railroad construction projects. The Minister said that he intended to float as much of the issue as possible in Mexico because prices of commodities were rapidly advancing and he desired to withdraw as much money from the market as possible. However, he feels that the Mexican market cannot absorb the entire issue and, therefore, will seek means of selling the remainder in the United States. He said that he would discuss this matter with

Secretaries

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Secretaries Hull and Morgenthau in order to secure, if possible, their support. He did not go into detail as to just what type of support he might request.

- (e) Minister Suarez has plans under way for the purchase of the Kansas City Mexico and Oriente Railroad in order that the port of Topolobampo on the Pacific coast might be connected by rail with the National Railways at Chihuahua. Such a route would give a direct haul for fresh vegetables, cattle, etc., through El Paso into the United States. The Minister understands that the Santa Fe Railroad holds an interest in the Kansas City Mexico and Oriente Railroad and indicated that he would talk to the officials of that road and may not mention this matter in Washington.
- (f) Relative to the settlement of the Foreign Debt, the Minister said that certain agreements had to be reached concerning the National Railways before final touches could be put upon a definite agreement. He said that he would discuss with Mr. Lamont in New York certain phases of the National Railways' debt. When asked the question as to whether or not a definite agreement could be reached on the Foreign Debt before his talk with Mr. Lamont, he said that it was not impossible but that he thought the matter would remain pending until after his visit to New York.
- (g) It is quite likely that Señor Suarez will wish to get some idea of whether there is likely to be any change in the near future in our silver policy. Since there have been some rumors afloat in Mexico City on that subject from time to time, he will no doubt be interested in getting the drift of sentiment in Washington while he is in that city.

In the event that additional information should be received from the Embassy regarding Señor Suarez's plans

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it will be incorporated in a supplementary memorandum.

There is attached hereto a copy of despatch from the American Ambassador at Mexico City dated March 16, 1937, in further relation to Señor Suarez's visit to Washington. The despatch also deals with the possibility that there may be an agreement concluded at an early date between the Mexican Secretary of Finance and the International Committee of Bankers on Mexico covering direct Mexican Government obligations in the sum of approximately 250,000,000 pesos and the Mexican railway debt in the amount of approximately 275,000,000 pesos. Copies of the enclosures transmitted with the despatch are not attached for the reason that they do not contain any additional information pertinent to the subject of this memorandum.

Enclosure:
From Embassy, Mexico,
March 16, 1937.

Department of State,
Washington, March 25, 1937.

EMBASSY OF THE
UNITED STATES OF AMERICA

Mexico, March 16, 1937

No. 4454

SUBJECT: Prospective visit to the United States of
Mexican Minister of Finance: Mexican Foreign and Railways Debts

STRICTLY CONFIDENTIAL

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to enclose herewith a copy of a letter addressed to me by the Commercial Attaché of this Embassy regarding the projected trip of the Minister of Finance, Licenciado Eduardo Suárez, to the United States.

In connection with the paragraph on the foreign debt, I may say that Mr. Rublee called recently upon the Counselor of the Embassy to say that he was preparing to return to the United States. He had just had an interview with Licenciado Suárez and had shown him a communication which he had received from Mr. Lamont reviewing the situation. Mr. Lamont held that there were only two solutions which might lead to a settlement of the railway debt with the Mexican Government: (1) to turn over the National Railways to the bondholders (a solution which Mr. Rublee and Licenciado Suárez both remarked was obviously out of the question); or (2) to settle with the bondholders by issuing direct Mexican Government obligations to them in the amount of approximately 250,000,000 pesos. This would mean a service of approximately 11,800,000 pesos a year. The settlement with the holders of the foreign debt, Mr. Rublee said, would involve the issuance of further bonds similar to those to be issued the railway bondholders, in the amount of approximately 275,000,000 pesos, involving a service of approximately 13,000,000 pesos a year. All of these would presumably be 40-year bonds bearing interest at 4%.

Two

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Two points had been causing particular difficulty in the discussions between Mr. Rublee and Licenciado Suarez regarding the foreign debt. One was the inclusion of a provision to protect the bondholders in the event of a drop in Mexican exchange. The other was an additional amount of 20,000,000 pesos of bonds to be issued five years hence to take care of accrued interest on the foreign debt and preferred stock. Mr. Suarez had held that this additional 20,000,000 pesos should be absorbed by the bondholders as part of the 275,000,000 peso bond issue settlement. Mr. Rublee explained that such an arrangement was impossible from the point of view of his Committee. At the last interview, Licenciado Suarez offered to give in on the exchange provision if the foreign bondholders would give in on the matter of back interest and preferred stock. Apparently nothing definite has been worked out as to what will be done about the back interest on the railway debt. Mr. Rublee mentioned that the back interest on the foreign debt actually amounted to some 385,000,000 pesos and the back interest on the railway debt to something like 250,000,000 pesos. He said any settlement made, therefore, would amount to a purely nominal figure.

Licenciado Suarez said that he was anxious to see Mr. Lamont in the course of his trip to the United States. He could not reach New York until April 6th, and Mr. Lamont had planned to sail for Europe on April 3rd. Mr. Suarez asked if Mr. Lamont could wait for him. Mr. Rublee telephoned to find out if this could be done and discovered that Mr. Lamont could not arrange to wait. Other members of the Committee will therefore receive Licenciado Suarez.

Mr. Rublee pointed out to the Counselor of the Embassy that the present arrangement for the disposal of the fund of seven million dollars now tied up in New York would terminate on April 1st and he did not think the bondholders committee would extend the agreement unless some understanding had been reached with the Mexican Government. Under their present plans approximately one million dollars of the amount now tied up would be available to the Mexican Government, the remainder to be devoted to expenses and initial payments under the settlement under discussion. If no agreement were reached, the entire amount now tied up would become available to the bondholders for distribution. The Counselor of the Embassy asked if there were not some legal impediment to such a distribution. Mr. Rublee said

there

-3-

there was not. The only recourse the Mexican Government would have would be to sue the Committee in the American courts; he doubted if they would do this, as it would be a reversal of their previous position that American courts did not have any jurisdiction in the matter. He pointed out that by making a settlement on the railway loan the Mexican Government would have the advantage of releasing the National Railways from any lien to the bondholders so that they can again be pledged in the new railway loan now under contemplation by the Mexican Government.

Mr. Rublee said he was under the impression that a good deal of what Licenciado Suarez had said about having to consult the President from time to time was tactical. He really thought that the whole negotiation had been conducted by Suarez largely on his own initiative and seemed to believe that the Minister had been trying to negotiate for the greatest possible advantage for the Mexican Government before putting the matter up definitely to the President.

I am rather doubtful as to whether this is the case, and am under the impression that Licenciado Suarez has kept the matter actively before the President at every phase. It is obvious that some irritation has developed between Rublee and Suarez. Mr. Rublee said that he expected that after his return to the United States he would take part in the negotiations in New York at the time the Minister saw members of the International Committee of Bankers on Mexico.

Yesterday Mr. Rublee supplied me with a copy of his file on his negotiations here. As he was able to give me only one copy, and it is voluminous, I have not yet had the opportunity to go over it fully or to have copies made. However, I am enclosing it herewith for the Department's information, with the request that after the Department has had an opportunity to study it and make excerpts it be returned to me for the Embassy's files.

My despatch 4447 of March 16, 1937, reports an important statement made by the President to the representative of the United Press, which would indicate that Licenciado Suarez expects to come to a definite agreement on the

foreign

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foreign debt and the railway debt during the course of his trip to the United States.

Respectfully yours,

JOSEPHUS DANIELS

RB

GRAY

Paris

Dated April 2, 1937

Rec'd 4:15 p. m.

Secretary of State
Washington.

437, April 2, 4 p. m.

FROM COCHRAN.

French rentes again lower and French shares market weak. While various threats of strikes are not immediately alarming, they will prevent any market enthusiasm from returning to the Paris market.

LE CAPITAL PARIS remarks that while there is for the moment no discussion of general monetary stabilization and no country apparently willing to take the initiative in that direction, it should not be overlooked that if the monetary problems were solved world economic recovery could be rendered more regular and stable.

In his annual report to Bank of Italy, Governor Azzolini considered the monetary agreements of September, 1936, the first attempt made since 1931 toward reestablishing broad and sincere international cooperation. Nevertheless, he added, this international monetary agreement remains

RB

-2-#437, April 2, 4 p. m. from Paris

remains subordinated to the international economic necessities of each country and the process of adaptation of the various currencies on stable bases, internal as well as external, still appears far from conclusive. The Governor pointed out the improvement in the Italian situation that has followed the alignment of the lira. He favors more elasticity than the old gold standard permitted.

END OF SECTION ONE.

WILSON

SMS

EMB

PARAPHRASE OF SECTION TWO OF NO. 437 OF APRIL 2, 1937, from the American Embassy, Paris.

Bankers of Paris, London and Brussels have received persistent rumors via their New York correspondents that the dollar is likely to be revalued upward, or that in some other manner purchases of gold at \$35 per ounce will be discontinued by the Federal Reserve. Such rumors are circulating among usually well-informed bankers over here, and are believed to have been partly responsible for the strength last night and this morning in the dollar.

To one of the bankers who mentioned this rumor to me I cited Section Twelve of the Gold Reserve Act - providing that the gold dollar shall not be fixed at more than 60 percent of its old weight, under existing legislation. The banker thus saw that it was hardly likely that necessary new legislation would be so hurriedly passed that while he might have a gold shipment enroute to New York a lower American gold buying price would be established.

I have the impression, nevertheless, that in the present uneasiness some of the bankers who ordinarily ship gold to New York may refrain from operations. The supply of dollars which has recently been available on European markets would naturally be restricted, and unless the British or American control stepped in, should lead to a rise in the quotation for the dollar.

END MESSAGE.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: April 2, 1937, 5 p.m.

NO.: 189

FOR TREASURY FROM BUTTERWORTH.

During a conversation at the British Treasury, Waley mentioned that Arakawa, the Financial Attaché of Japan accredited to London and Paris as well as Washington, was in this country. In the course of a luncheon, Waley said, Arakawa had indicated that he wished to call at the British Treasury in the near future to discuss the possibility of Japan adhering to the six-power monetary arrangement. According to Arakawa, the authorities in Japan intend to hold the yen stable and they were favorably disposed to adhere to the agreement. Arakawa had not yet made a visit to the British Treasury, but Waley said the sudden general election in Japan might of course alter his intentions.

My contact said that for his part he would welcome the adherence of Japan to the tripartite monetary agreement, that he did not know his "political geography well enough to say whether Japan belonged to the Italo-German axis", but he did believe that the monetary arrangement had political democracies associated with it too much, and to have a non-democratic adherent would be a healthy thing. In addition, he said it seemed that Japan had garnered what

it

- 2 -

it could from the anti-comintern pact with Germany, and might now find it suitable to take the contemplated step, for political as well as economic and financial reasons.

Re the last paragraph of my 172, March 25, 9 p.m., we also discussed in a casual way - without reference to Clay - the question of reducing the value of gold. Waley dismissed the idea, saying that it was interesting but probably beyond the realm of practical politics. He said it was always difficult to retrace one's steps, and usually to explain them away to members of parliaments and senates was impossible.

BINGHAM.

EA:LWW

April 2, 1937
10:59 a.m.

H.M.Jr: Hello?

Operator: Congressman Patman. Go ahead.

H.M.Jr: Hello?

Rep.
Patman: This is Patman, Mr. Secretary.

H.M.Jr: Yes; hello.

P: How are you today?

H.M.Jr: Oh, pretty well.

P: I don't suppose you have any problems that are pressing.

H.M.Jr: None at all.

P: I wonder if I may see you this morning about 11:30?

H.M.Jr: Well, ah - might I ask this?

P: Yes.

H.M.Jr: If it is something which is Legislature or urgent, yes. If it's something about some appointment could you let it go over until next week?

P: Well listen, I never asked you for an appointment in my life.

H.M.Jr: Is it something you,.....

P: It's about legislation.

H.M.Jr: Well, 11:30 it is.

P: 11:30?

H.M.Jr: Yes.

P: I'll be down at 11:30, Mr. Secretary.

H.M.Jr: Good.

P: Say, and listen

H.M.Jr: Yes.

P: If - You know I believe in the Government
owning the Federal Reserve Banks.

H.M.Jr: Yes, I see you do.

P: We're preparing a bill along that line and I
want to talk to you about it.

H.M.Jr: All right.

P: I want to get your views.

H.M.Jr: Thank you.

P: Thank you; goodbye

April 2, 1937
12:11 a.m.

Operator: Go ahead.

H.M.Jr: Hello?

Pat
Harrison: Hello, Henry?

H.M.Jr: Hello, Pat.

H: How are you this morning?

H.M.Jr: Oh, I've been better.

H: Henry, I tried to sell those ideas but I couldn't.

H.M.Jr: Ah-ha.

H: We had a conference up here the very next morning. That was yesterday morning.

H.M.Jr: Yes.

H: And they met with their groups yesterday.

H.M.Jr: Yes.

H: Of course the - the whole thing hinged on the proposition about the railroads on this money that they've collected -

H.M.Jr: Yes.

H: - and which they've charged on their books as paid into the Treasury -

H.M.Jr: Yes.

H: - on the bookkeeping proposition.

H:M.Jr: Yes.

H: And so they came to me this morning to make a report.

H.M.Jr: Yes.

H: And so they just couldn't get along at all on that. Harrison representing the Brotherhood and Pelley representing the railways -

H.M.Jr: Yes.

H: - so I asked them to let me know after they'd had their meeting with the group, and so what they said they'd do - they'd just have to have the bill introduced in the Senate and ask for hearings, etc., on it.

H.M.Jr: I see.

H: So I just wanted to advise you.

H.M.Jr: All right.

H: All right, Henry.

H.M.Jr: Sorry.

H: Goodbye.

H.M.Jr: Goodbye.

150 NASSAU STREET
EAST OF CITY HALL

GEORGE B. BUCK
CONSULTING ACTUARY
NEW YORK CITY

CABLE ADDRESS
SOUNDPLANS NEW YORK

209

April 2, 1937.

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

Dear Mr. Secretary:

The Board of Actuaries has received your letter of March 18, 1937, requesting an analysis of certain actuarial computations made by the Railroad Retirement Board and by the Government Actuary. The letter also asks for the Board's opinion in respect to the assumptions upon which the calculations were based.

The Board has undertaken to comply with your request and submits the following.

Statement of Basic Assumption

The Social Security Act provides benefits to all employees other than those engaged in agriculture and a few other stated occupations. The Act includes employees of the power companies, telephone and telegraph companies, motor bus and air transportation systems, electric railways, and other industries and public utilities. Railroad employees will also be included unless they are given special benefits under a separate act. If any other groups desire benefits greater than those of the Social Security Act, such benefits must be provided at the expense of the employees, or their employers, or both. The present pension rolls of such employers must of course be carried at their own expense.

The proposed act is designed to produce benefits for railroad employees greater than those of the Social Security Act, so we assume that the Congress and the public will expect the railroads and their employees to pay the cost of the extra benefits; for otherwise, if railroad employees are given special privileges, other groups may be expected to demand such benefits immediately.

We therefore assume that the Treasury is concerned with having the rates set in the proposed tax bill sufficiently above the Social Security tax rates to reimburse the Government for the extra benefits provided in the proposed retirement bill so that the railroads and the railroad employees will not be subjected to substantial unexpected increases in their taxes in the future or on the other hand, that the general public shall not be subjected to unanticipated taxes in order to give special benefits to the railroads.

The Board has had no opportunity to develop its own figures of cost, but has reviewed the figures prepared by the Railroad Retirement Board and the figures derived therefrom by the Government Actuary.

Findings of Fact

The Railroad Retirement Board figures indicate that the proposed scale of tax rates would be too low to provide the benefits and in a memorandum submitted to the Treasury by Mr. Murray W. Latimer, Chairman, it is argued that the Government should properly supplement these taxes because of the saving resulting from the exclusion of the railroads from the Social Security Act.

In the documents transmitted to us, it appears that subsequent to the receipt of Mr. Latimer's memorandum by the Treasury Department, the Railroad Retirement Board made calculations showing the cost of Social Security benefits as applied to the railroads, and made the results of their calculations available to you. From these figures we find that the Social Security taxes would not cover the cost of benefits in respect to the present group of 1,250,000 railroad employees. This condition is also true in respect to practically all other groups under the Social Security Act, but it does not hold when new entrants are included. When new entrants into railroad service are included in the calculations in the identical manner that they were included in the figures showing the total cost of the proposed bill, it is apparent that the exclusion of the railroads will actually produce a deficit of approximately \$640,000,000 in the Old-Age Reserve Account established under the Social Security Act. The figures showing the cost of the proposed bill, also prepared by the Railroad Retirement Board, indicate an additional deficit of about \$374,000,000 in the tax rates for the proposed bill. Therefore, on the basis of the Railroad Retirement Board's actuarial calculations, the proposed measure with the existing tax rates will involve the public in additional taxes approximating over \$1,200,000,000.

The cost figures prepared by the Railroad Retirement Board indicate that a uniform tax rate of about 8.25 per cent. is necessary to cover the cost of the proposed bill. Even this figure may be low because the Railroad Retirement Board is using the assumption that the average age of retirement of those in good health who have the right to demand retirement at age 65 will not be until age 70. In the past there have been a number of reasons which caused men to work at very high ages in the railroads, which reasons may not exist under the new retirement plan.

Conclusions

The Board's first conclusion is that the tax rates of the proposed bill are not adequate and that either the public or the railroads and their employees must make up the deficit.

The second conclusion of the Board of Actuaries is that the proposed tax bill should be amended to provide either for an initial tax rate of 7 per cent., increasing by increments of one-half per cent. every third year to 8.5 per cent. after January 1, 1946; or an initial tax rate of 5 per cent., increasing by 1 per cent. increments to 9 per cent. after January 1, 1949; or some

other equivalent adjustment in the proposed tax scale.

The third conclusion is that since any estimate must involve certain assumptions, conservative or otherwise, which may not be borne out by the facts, it appears desirable that the retirement bill should be amended to provide for periodic valuations of the contingent assets and liabilities created by the act in respect to new entrants, existing members, and pensioners; with a report to the Congress and the public setting forth the amount of such assets and liabilities as well as the level percentage of the payroll required to provide the benefits. In order that all parties at interest, namely, the railroads, the employees, and the public, may be assured that they have technical representation, perhaps the actuarial valuations should be made subject to the supervision of a board of three actuaries, one of whom might be designated by the railroads, one by the railroad employees, and the third by the Secretary of the Treasury.

Respectfully submitted,

Edmund
Henry Moir R. R. Reagh
 Board of Actuaries,
 Civil Service Retirement and Disability Fund.

The figures in the first & second conclusions seem to me reasonable and probably correct although I have had no facility for checking them. The third conclusion is eminently proper & if adopted will serve as a periodic check on the figures - Generally concur in the letter

Pinehurst 3^d April 1937.

Henry Moir

April 9, 1937

Dear Mr. Magill:

I have now studied carefully the memoranda by Mr. Latimer and the various figures regarding the benefits to railroad employees under the proposed bill. I am convinced that such benefits call for contributions which should run from 5 percent at first to 9 percent ultimately as recommended by Mr. Buck and Mr. Reagh.

The railroad employees include many who have been for a long time in service and it is these older employees who get the greatest benefits under the proposed legislation. I am further advised that the employees' organizations want to be fair in this whole matter. If so, I would like to suggest that in the early years the employees pay the full amount of 5 percent and that the additional charges running up to 9 percent ultimately be paid solely by the employers, thus equalizing in a manner the benefits and putting the extra cost on those who get most of the extra benefits, namely the present employees.

Sincerely,

Henry M. M. M.

Honorable Roswell Magill,
Under Secretary of the Treasury,
Washington, D. C.

** This might be made
4 1/2 % at first, rising to
9 % on the 50-50
principle M.M.*

ROOSEVELT SEEKS TO CHECK GOVT BUYING OF DUR-
-ABLE GOODS- CITES PRICE INCREASE IN COPPER
AND STEEL

WASHN-

1106
APR 2 1937

ADD ROOSEVELT

WASHN - PRESIDENT ROOSEVELT AT HIS
PRESS CONFERENCE THIS MORNING DISCUSSED THE
ECONOMIC SITUATION AT SOME LENGTH AND
REVEALED THAT THE ADMINISTRATION IS SEEKING
TO CHECK GOVERNMENT PURCHASES OF DURABLE GOODS
- THE PRESIDENT SAID THAT AT PRESENT THE
INCREASE IN PRODUCTION OF DURABLE GOODS WAS
GOING MORE RAPIDLY THAN THE INCREASE IN
CONSUMER GOODS - THE CHIEF EXECUTIVE DESCRIBED
THIS AS A DANGER SIGN - ALMOST EVERY TIME
DURING THE PAST 30 OR 40 YEARS HE SAID WHEN
THE CURVE OF DURABLE GOODS PRODUCTION HAS GONE
ABOVE THE CURVE OF CONSUMER GOODS OUTPUT THERE
HAS DEVELOPED NOT NECESSARILY A DEPRESSION BUT
A FALLING OFF WITHIN 12 TO 18 MONTHS

THAT-S HISTORY THE PRESIDENT SAID ASSERT-
ING THAT ALL ECONOMISTS AGREED ON IT

THE PRESIDENT WENT ON TO SAY THAT HE
HAD ABOUT DECIDED THAT THE TIME HAS COME
INSOFAR AS POSSIBLE TO DISCOURAGE GOVERNMENT
PURCHASES OF DURABLE GOODS AND ENCOURAGE CON-
SUMER GOODS PURCHASES

THERE IS NEED MR ROOSEVELT SAID FOR

MORE EXPENDITURE OF NATIONAL INCOME AT THE BOTTOM AND LESS AT THE TOP - FUNDS AT THE BOTTOM HE ASSERTED GO TO CONSUMERS OF CONSUMERS GOODS RATHER THAN TO CONSUMERS OF DURABLE GOODS

THE PRESIDENT CITED LARGE GOVERNMENT PURCHASES OF STEEL FOR NON-MILITARY USES AS AN EXAMPLE OF THE TYPE OF GOVERNMENT BUYING WHICH HAD THE EFFECT OF BOOSTING DURABLE GOODS OUTPUT - THE GOVERNMENT HAS ALSO BOUGHT A LARGE PERCENTAGE OF THE WHOLE COUNTRY-S OUTPUT OF CEMENT HE SAID

AS RESULT THE PRESIDENT CONTINUED IN THE FUTURE - - THE COMING YEAR - - THE ADMINISTRATION WANTS TO SLOW DOWN ON SUCH THINGS AS STEEL BRIDGES AND PERMANENT STRUCTURES THE PRICE OF WHICH IS GOING UP AND UP AND UP

THE CHIEF EXECUTIVE MENTIONED COPPER AS ONE DURABLE GOODS MATERIAL THAT HAS ADVANCED SHARPLY - THE PRESIDENT SAID THAT EVERYBODY KNOWS THAT COPPER MINES SHOW A PROFIT AT 5 OR 6 CENTS A POUND - MENTIONING ANACONDA COPPER BY NAME HE SAID THE COMPANY COULD SHOW A PROFIT AT 8 OR 9 CENTS - YET COPPER IS AT 17 CENTS OR MORE HE STATED PUSHING UP ALL KINDS OF ARTICLES IN WHICH COPPER IS USED PRIMARILY DURABLE GOODS ARTICLES

APR 2 1937

11.28

WASHN - PRESIDENT ROOSEVELT EXPRESSED A PREFERENCE FOR ACTIVITIES SUCH AS CHANNEL DREDGING AND EARTHEN DAMS RATHER THAN WHAT HE REFERRED TO AS GREAT STRUCTURES

THE GOVERNMENT OUGHT TO SLOW DOWN ON THE PURCHASE OF DURABLE GOODS HE STATED FLATLY AT THIS POINT

RECENT ADVANCES IN THE PRICE OF STEEL WHICH HAS GONE UP 6 DLS A TON THE PRESIDENT DESCRIBED AS MUCH LARGER THAN WAS JUSTIFIED - ACCORDING TO FIGURES PREPARED FOR HIM BY THE CENTRAL STATISTICAL BOARD THIS ADVANCE WAS BETWEEN TWO AND THREE TIMES THE AMOUNT THAT WENT TO THE WORKERS IN WAGE INCREASES MR ROOSEVELT STATED

IN REPLY TO A QUESTION AS TO WHETHER HE WAS SEEKING ANY CHECK ON DURABLE GOODS PRICES BESIDES A MODIFICATION OF GOVERNMENT BUYING POLICY THE PRESIDENT REPLIED THAT HE WISHED HIS QUESTIONER COULD TELL HIM A WAY TO DO IT

IN REPLY TO ANOTHER QUESTION THE PRESIDENT SAID THAT THE DEMAND FOR ARMAMENTS ABROAD HAD HAD A GREAT DEAL TO DO WITH THE DURABLE GOODS MOVEMENT AND HE CITED RECENT ESTIMATES OF STEEL SHIPMENTS TO ENGLAND

PRESIDENT ROOSEVELT SAID HE DID NOT THINK THE PRESENT 4-CENT EXCISE TAX ON COPPER HAD ANYTHING TO DO WITH THE PRESENT 17-CENT PRICE WHICH HE DESCRIBED AS A WORLD PRICE - IT MAKES NO DIFFERENCE AT PRESENT WHETHER THE 4-CENT TAX IS TAKEN OFF OR NOT THE CHIEF EXECUTIVE ASSERTED

PRESIDENT ROOSEVELT EXPECTS HIS RELIEF

APR 2 1937

MESSAGE COVERING THE 1938 FISCAL YEAR TO GO TO CONGRESS ABOUT THE 14TH OF THIS MONTH - WITH THAT MESSAGE CONGRESS WILL ALSO RECEIVE A RE-CASTING OF BUDGET ESTIMATES FOR THE CURRENT FISCAL YEAR AS WELL AS 1938 - THE PRESIDENT DECLINED TO REVEAL ANY DETAILS

HE DID SAY HOWEVER THAT HE STILL HOPED THAT NO NEW TAXES WOULD BE NECESSARY AT THE PRESENT SESSION OF CONGRESS

THE PRESIDENT REITERATED THE DENIAL MADE YESTERDAY BY SECY HULL THAT THE ADMINISTRATION WAS CONSIDERING THE CALLING OF A WORLD ECONOMIC OR PEACE CONFERENCE

HE DECLINED TO COMMENT ON PRESENT STRIKES AND SAID HE HADN-T HEARD ANYTHING ABOUT THE WAGNER HOUSING BILL DURING THE PAST 4 OR 5 DAYS

PRESIDENT ROOSEVELT-S COMMENT ON DURABLE GOODS AND THE GOVERNMENT-S BUYING PROGRAM CAME IN RESPONSE TO A QUESTION CONCERNING HIS CONFERENCE YESTERDAY WITH A GROUP OF SIX REPRESENTATIVES HEADED BY REPV BEITER OF NEW YORK ON THE SUBJECT OF THE PWA PROGRAM FOR NEXT YEAR

-0-

ADD ROOSEVELT

WASHN -

THE POLICY OF THE GOVERNMENT IN ITS OWN SPENDING WITH PARTICULAR REFERENCE TO PUBLIC WORKS OUGHT TO BE AIMED AT LARGER PURCHASING POWER IN THE CONSUMERS GOODS FIELD MR ROOSEVELT SAID

-0-

April 2, 1937.

The Secretary

Mr. Magill

The revised estimates made by the Division of Research and Statistics show the following major deficiencies in revenue receipts for the present fiscal year:

	<u>Millions</u>
Income Tax	267.5
Estate Tax	30.
Gift Tax	90.
Railroad Retirement	134.
Social Security	30.
Windfall	80.
	<u>631.5</u>

This tabulation does not take account of possible increases in revenue from some of the taxes. The work in this respect has not been completed but I think we can safely say that these figures will not greatly change the picture; they might reduce the estimated deficiency to an even \$400 million.

You will also notice that the estimated deficiencies as shown above are much less in the case of the estate tax and much greater in the case of the income tax than the figures I have previously given you. I am not yet convinced that the Division's calculations on the estate tax are correct; the deficiency might very well be \$75 or \$80 million below the budget estimates. I have not gone into the income tax estimate in detail since I just received it this morning.

*cc - Mr Magill to
Secy by 4/2*

RM/mrl

Cabinet

THE WHITE HOUSE
WASHINGTON

April 2nd

Pres. said:—

"Still hopes for
a balanced Budget
for 1938"

"Will try to get thru
this fiscal year
without any more
demands on the
Treasury."—

Friday
April 2, 1937
4:10 p.m.

HMJr: Hello -

T.O.: Chairman Eccles - Go ahead.

HMJr: Hello

Marriner: Hello, hello, Henry.

Eccles: Hello, hello, Henry.

HMJr: Marriner -

E: Yes

HMJr: I got your statement; I don't know whether you've seen ours.

E: Yes, I've seen yours -

HMJr: I'm not entirely happy over yours but I mean it's - not so much but what I could go along with most of it, see?

E: Yes

HMJr: Now, the question we want to know is, I think we ought to try to polish this off to-night so that you'll be free tomorrow to tackle your Board.

E: That's right.

HMJr: Now, are you free tonight?

E: Yes

HMJr: Well, I'd rather do it after supper tonight. We'll let our boys work on it in the meantime.

E: All right.

HMJr: See?

E: All right. I made a change or two in our statement too, I mean I -

HMJr: I'd be free at eight-thirty if you are.

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E: O. K.

HMJr: And, I mean - just a second, Herbert's here.
(Short pause while Secretary talk to Mr. Gaston)
Hello -

E: Yes

HMJr: Herbert says he'd like to do a little work and
then come over and see them at your place because
they've got a kind of a watch on both of my doors
here.

E: Yes

HMJr: There are newspaper men pacing up and down the
floor and he thinks they're less apt to be seen
if he goes over to your place.

E: Fine -

H.M. Jr: What?

E: That's all right. Now who do you - who do you
want to meet tonight? - How - ?

HMJr: Well, you and anybody else you want, I mean -

E: Wouldn't it be well to confine it, let's say
you get - we - I'll bring Elliot and Golden-
weiser only, see -

HMJr: All right.

E: Just the two of them.

HMJr: All right.

E: And - and you have -

HMJr: I'll have a couple.

E: And you have a couple. We get so darn many and
you know, you -

HMJr: That's all right.

E: And if there's just the six of us I think we can
maybe make some progress.

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HMJr: All right.

E: And, in the meantime, you say Herbert wants -

HMJr: A little later on Herbert Gaston will give
Elliot -

E: All right, that'll be O.K.

H.M.Jr: See?

E: That'll be O.K. then.

HMJr: All right.

E: Then I'll - where do you want to - over to
your place?

HMJr: At my house, is that all right?

E: That's all right with me.

H.M.Jr: 8:30?

E: 8:30.

HMJr: Thanks.

E: All right.

MEMORANDUM

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April 2, 1937

To: Secretary Morgenthau

From: Dr. Burgess

After opening lower today and declining rapidly during the first half hour Treasury bond market turned upward in active trading and closed at its highs of the day with the long bonds 12/32 to 22/32 better than yesterday with the exception of the new 2 1/2s, up 9/32. The other Treasury bonds showed gains ranging generally up to 13/32. In the guaranteed group the F.F.M.C. bonds showed gains of about 1/2 point and the H.O.L.C. bonds were up 3/8 to 3/4 of a point. Turnover of government bonds on the board was \$6,802,000 compared with \$6,344,000 yesterday. There was a good demand for bonds, which were often taken on the offered side as the market rose. Treasury notes improved with the rest of the market and the longer maturities finished 1/32 to 5/32 better than yesterday's close.

Domestic bonds both high and second grade opened fractionally lower and early in the afternoon high grades were off small fractions to around 3/4 of a point and second grade bonds were down fractionally to more than one point. Trading was not very active. There was a better tone to the market in the last hour and quotations improved on some short covering. High and second grade bonds generally closed fractionally off from yesterday.

Foreigns were dull with few price changes. Canadian bonds sold off slightly.

Purchased today \$225,000 miscellaneous Treasury bonds for System account.

Friday
April 2, 1937
4:24 p.m.

HMJr: Hello -
Bob
Doughton: Mr. Secretary?

HMJr: Talking - how's Mr. Doughton?

D: How's that?

HMJr: How are you, Mr. Doughton?

D: Well, just about the same. How's your case developing?

HMJr: Oh, just about the same.

D: Yes. Well, you know what progress was made in the discussion or conference between the railroad people and your office, Dr. Magill, about this -

HMJr: Yes

D: - this disagreement on the tax?

HMJr: Yes

D: Well, what is the situation now?

HMJr: Well, Pat Harrison called me up this morning and said that he'd heard from Pelley and that the railroads wouldn't go along.

D: Wouldn't?

HMJr: No. So he talked to the Vice President and we took it up at Cabinet and I told the President about it and in confidence I'll tell you what the President said.

D: All right.

HMJr: He told the Vice President that - to ask Pat Harrison not to introduce any bill in the Senate and that he, the President, would send him up a letter and - telling him why. Asked him to hold off until the President had a chance to write him a letter.

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D: Well, I talked to the President about it today and he - I told him that the request in the bill would be introduced some time today.

HMJr: You -

D: And -

HMJr: What's that?

D: The President requested that it go over until Monday -

HMJr: Yes

D: - Well, Dr. Magill is gone I understand.

HMJr: That's the thing. And I told that to the President.

D: Well, who have you got there now that could know whether to go into a conference tomorrow you see?

HMJr: No, nobody can do anything until Magill gets back Monday morning.

D: Monday morning?

HMJr: Yes

D: Yes. Well, I'd be glad, if you don't mind, and if you'd call me or have Dr. Magill to as soon as he gets in his office Monday morning.

HMJr: Yes, well now do you want a similar letter as Pat gets?

D: Well, as you like about that.

HMJr: All right. I'll tell -

D: But I think this, they want - they are going to have a bill introduced Monday I'm - as far as I'm really - reasonably certain.

HMJr: Well, -

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- D: And if - of course any time during the session or day would be introduced Monday, I think -
- HMJr: Well, they'll - I'm sure Pat isn't going to introduce it because the President asked Jack Garner to ask him not to introduce it.
- D: Yes, but they want it introduced over here as a tax bill. He hasn't - Pat hasn't gotten around to introduce it - we just sent it back on him.
- HMJr: Well, that's what I -
- D: That originated in the House, that don't - there's no trouble for Pat to obey that request because it's not his responsibility anyway. Over here is where the job is.
- HMJr: Well, I asked Jack Garner, "How can Harrison introduce a revenue bill which would - a tax bill which originates in the House?"
- D: He can introduce it but then he wouldn't get far with it.
- HMJr: Well, I think you'll find - I'd be very much surprised, after the Vice President speaks to Harrison, if he won't wait until the President writes him a letter.
- E: Yes, but - but you don't get my point. They want it done over here in the House, that's -
- HMJr: Well, then let the President write Harrison a letter and let him write you a letter, both.
- D: Well, that'd be all right.
- HMJr: Now, the President is taking the same view that I took, that we can't afford this thing and the Treasury can't lose this revenue and that's what the letter is going to say.
- D: I don't want to advise about it because I -
- HMJr: I wish you would.

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D: don't think that I'm capable of advising. But I do feel this, that it couldn't hurt and might be helpful and clarify the situation up and get a perfect understanding if somebody from your office could have a conference with these people Monday morning the first thing.

HMJr: Well, sir, I'll tell Magill's office the minute he comes in to call you up.

D: All right.

HMJr: And I appreciate your calling me.

D: How's that?

HMJr: I thank you for calling me.

D: All right. You're welcome.

HMJr: Goodbye.

D: Goodbye.

April 2, 1957

Mr. McGill**Secretary Murgenthau**

Senator Harrison called me and said he could not get in touch with the railroad owners and therefore was going to introduce the Bill in the Senate. I reported this to the Cabinet. Senator Harrison talked with the Vice President; the President requested the Vice President to tell Senator Harrison to do nothing until he, the President, could send him a letter outlining why the Treasury could not afford to let this Bill go through because of the loss of revenue both this year and next year. I told the President Mr. McGill would prepare such a letter in consultation with Mr. Bell, and it would be ready by twelve o'clock, Monday, April 5th.

Dictated by the Secretary
to Miss Humphries,

copy to Mrs. Klets

5-
Apr 5

Honorable Leo T. Crowley,
Chairman, Federal Deposit
Insurance Corporation,
National Press Building,
Washington, D. C.

My dear Mr. Crowley:

The Treasury is holding in safekeeping for the Federal Deposit Insurance Corporation \$100,000,000 face amount of 2 per cent special Treasury notes, dated December 1, 1934, maturing December 1, 1939.

The Treasury is of the opinion that it would be in the public interest if at this time the Corporation should authorize the Treasury to redeem \$5,000,000 of its special 2 per cent Treasury notes and to reinvest the proceeds in other obligations of the United States. In the event the Corporation approves this suggestion the Treasury is prepared to redeem at par, plus accrued interest to date of redemption, \$5,000,000 of these special 2 per cent Treasury notes.

I shall be glad if your Board would give prompt consideration to this matter and advise me of its action.

Very truly yours,

Secretary of the Treasury

EPH:MLR
April 5, 1937

There were present at Secretary Morgenthau's home Friday evening, April 2nd, the following:

Secretary Morgenthau
Governor Eccles
Dr. Goldenweiser
Elliott Thurston
Wayne Taylor
Dan Bell
George Haas
Herbert Gaston

The discussion lasted for about two hours and related almost wholly to the phrasing of a press release for proposed use on Saturday which involved, however, the whole question of the action to be taken with respect to the bond market and the arguments which were to be presented by Chairman Eccles to the members of the Open Market Committee meeting Saturday, April 3rd. Both the Treasury and the Federal Reserve people had prepared tentative releases. After receiving from Elliott Thurston at 2:30 on Friday a copy of the Federal Reserve's version, the Treasury group, consisting of Taylor, Haas, Bell, White, Seltzer and Gaston, had made some revisions in the tentative Treasury draft. Gaston had gone over to see Thurston and Goldenweiser about 6:00 Friday evening and they had argued for their general form of draft, and Thurston at that time suggested the modification of their draft by inserting the words "if necessary" in No. 2, which stated that the Federal Reserve system would increase its holdings of Government securities.

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Gaston suggested at that time several modifications of the Federal Reserve draft. At the beginning of the discussion at the Secretary's home, Dr. Goldenweiser produced a revised draft. This draft included various points which the Treasury had found objectionable, including the words "if necessary" in No. 2. The Secretary objected immediately to that qualification. Momentarily, this point was passed over for consideration of the first paragraph in which the Federal Reserve people retained their statement to which the Treasury objected, which read "Developments wholly unjustified by underlying financial and economic conditions have recently manifested themselves in the capital markets and are adversely affecting the orderly progress of economic recovery." Gaston repeated the Treasury's objections already advanced to this language and the Secretary said that he would not permit that statement to stand. He said we might just as well face the facts and recognize that the break in the market was largely, if not wholly, due to the increase in reserve requirements and this was certainly an "underlying condition." A modification of the wording to omit the objectionable phrasing was finally agreed upon. This made the first sentence read "Developments which have recently manifested themselves in the capital markets threaten to affect adversely the orderly progress of economic recovery."

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There was protracted argument as to the statement of the amount of gold certificates which the Treasury should deposit. The Treasury had originally suggested 500 million and the Federal Reserve had countered with the suggestion of 300 million. It was explained that one of the reasons for placing it at 500 million instead of 300 million was that we did not wish to place this figure at the actual amount which was generally considered to represent the Treasury's cash needs. We wanted to get away from creating the impression that the Treasury was merely doing this to improve its cash position, which was not the fact. The Secretary said he would not even want those in the room to think that this was any part of the Treasury's motive.

Chairman Eccles and Dr. Goldenweiser repeated their objections to the 500 million figure. They said that it could be calculated to be almost the exact amount necessary to nullify the effect of the increase in reserve requirements on May 1st and that, therefore, Chairman Eccles would have great difficulty not only in the public reaction but in convincing the members of the Open Market Committee that they ought to go along on the general plan. At the earlier meeting with Chairman Eccles in the Secretary's office on Thursday, the Secretary had consented to modify this figure from 500 million to 400 million but stated that he would not accept

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300 million for the reasons stated before. Near the close of Friday night's discussion, Dr. Goldenweiser offered an alternative. It was that we reduce the gold certificate amount to 250 million with the understanding that open market operations would take care of another 250 million. This, he said, would make it a fifty-fifty proposition. Mr. Haas commented that this was something like a fifty-fifty sausage consisting of half horse and half rabbit, since it would have the effect of increasing rather than lessening the burden on the Treasury and would subject us to the criticism of showing favoritism to the banks. It would increase the cost to the Treasury and lessen the cost to the Federal Reserve system.

The Secretary thought that this 250 figure would weaken the force of the action and he could not at this time consent to it. He would, however, sleep on the matter with the understanding that he was still sticking to the 400 figure.

Chairman Eccles reverted to the words "if necessary" in action No. 2. He thought that with this qualification, he would be in a much better position to win over his Open Market Committee by explaining to them that they were not asked to do more than market conditions would require. The Secretary said with great emphasis that he would not consent to any such proposition; that if the Federal Reserve group and the Open

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Market Committee insisted on it, he simply would not play ball with them and he would be forced to go ahead on his own as he had been doing with respect to the Treasury's bond market for the last two years. It was pointed out to Chairman Eccles that the use of the words "if necessary" would deprive the whole procedure of any effect of concerted action at all. The Treasury would be making a definite commitment but the Federal Reserve system would not be committing themselves to anything and that would be obvious on the face of the statement. More than anything else what was wanted was to show concerted action and a united front and these two weasel words would completely destroy that effect. Chairman Eccles, Dr. Goldenweiser and Thurston finally conceded the force of this argument and Chairman Eccles said that he might indicate to his Open Market Committee some of the implications of failure on their part to make a definite commitment for action. Chairman Eccles finally stated that he personally, as Chairman of the Board of Governors, was determined to be associated with the Treasury Department in this concerted corrective move and that he felt willing to tell the Committee that if they would not go along, he would ask to be associated in the Treasury statement as agreeing to it in his capacity as Chairman of the Board of Governors.

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By general agreement the final paragraph of the Federal Reserve form of statement was substantially modified in the light of Treasury objections.

It was agreed that a joint press conference would be held in the Treasury some time Saturday afternoon, the time to depend on the progress of the deliberations of the Open Market Committee and the opportunity for presenting the final plan to the President for his approval. If there was prospect in the early afternoon for agreement on a joint course of action, the newspaper men were to be notified that a statement would be forthcoming later in the day.

There are attached copies of the Federal Reserve draft (A) of a proposed statement presented at the opening of the evening's discussion, the Treasury draft (B) and the final revised draft (C) which was the product of the evening's meeting.

April 2, 1937.

Developments wholly unjustified by underlying financial and economic conditions have recently manifested themselves in the capital markets and are adversely affecting the orderly progress of economic recovery. In order to counteract these developments, the United States Treasury and the Federal Reserve System have decided upon the following course of action, effective as of Monday, April 5:

1. The Treasury will deposit with the Federal reserve banks \$ _____ of gold certificates, issued against gold previously held inactive, and is prepared to deposit additional amounts if necessary.

2. The Federal Reserve System will if necessary increase its holdings of United States Government securities through open market operations.

The effect of the combined action will be to add to the reserves of member banks, thus facilitating an orderly adjustment to the final increase in reserve requirements, and to maintain an orderly capital market which is essential for refunding and new financing in the construction and durable goods industries, including housing; for the restoration of full employment, and for the effective utilization of the country's productive resources in agriculture, commerce and industry.

The Secretary of the Treasury and the Board of Governors of the Federal Reserve System, in accordance with their common policy of seeking to maintain a level of interest rates which will promote full employment and effective utilization of the country's productive resources, are taking the following action:

(a) The Secretary of the Treasury will transfer to the Treasury's account with the Federal Reserve Banks ~~400 million~~ of gold certificates against free gold now carried in the Working Balance and in the Inactive Gold Account of the Treasury. Gold certificates will also be issued against further new acquisitions of gold. This action is taken in conformity with the Secretary's statement of December 22, 1936, which declared that "the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announced that he proposes whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department."

(b) The Federal Reserve System will make additional purchases of securities for the System open-market account.

Developments which have recently manifested themselves in the capital markets threaten to affect adversely the orderly progress of economic recovery. In order to counteract these developments, the Treasury and the Federal Reserve System have decided upon the following course of action, effective as of Monday, April 5:

1. The Treasury will deposit with the Federal Reserve banks \$400,000,000 of gold certificates, issued against gold which has been held inactive. This action is in conformity with the policy with respect to acquisitions of gold announced by the Secretary of the Treasury on December 22, 1936, after conferring with the Board of Governors of the Federal Reserve System.

2. The Federal Reserve System will increase its holdings of United States Government securities through open market operations.

The purpose of the combined action is to maintain an orderly capital market, which is essential for the restoration of full employment, and for the effective utilization of the country's productive resources.

~~_____~~

which

Developments ~~which have recently manifested~~
~~financial and economic conditions~~ have recently manifested
~~themselves in the capital markets and~~ *threaten to affect*
~~adversely~~ ~~the~~ the orderly progress of economic recovery. In order to
 counteract these developments, the ~~United States~~ Treasury
 and the Federal Reserve System have decided upon the follow-
 ing course of action, effective as of Monday, April 5:

1. The Treasury will deposit with the Federal reserve
 banks ~~\$400,000,000~~ *\$400,000,000* of gold certificates, issued against
 gold ~~previously held inactive,~~ *which has been*
~~additional amounts if necessary.~~ < x

2. The Federal Reserve System will ~~(if necessary)~~ increase
 its holdings of United States Government securities through open
 market operations.

Purpose
 The effect of the combined action ~~is~~ *is* to ~~add to the~~
~~reserves of member banks, thus facilitating an orderly adjustment~~
~~to the final increase in reserve requirements, and to maintain~~
 an orderly capital market, which is essential ~~for refunding and new~~
~~financing in the construction and durable goods industries, in~~
~~cluding~~; for the restoration of full employment, and for
 the effective utilization of the country's productive resources ~~x~~
~~in agriculture, commerce and industry.~~

For History. This was
the statement agreed on at my house
Friday a week ago. 239

Developments which have recently manifested themselves in the capital markets threaten to affect adversely the orderly progress of economic recovery. In order to counteract these developments, the Treasury and the Federal Reserve System have decided upon the following course of action, effective as of Monday, April 5:

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The purpose of the combined action is to maintain an orderly capital market, which is essential for the restoration of full employment, and for the effective utilization of the country's productive resources.

✓ → 6/10

Masters

MEETING RE BOND MARKET -
INTEREST RATE SITUATION

April 3, 1937
12:30 p.m.

Present: Mrs. Klotz
Mr. Haas
Mr. Lochhead
Mr. Upham
Mr. Bell
Mr. Gaston
Mr. Taylor

H.M.Jr: Where does this come from, this UP story?

Gaston: Oh, that comes mostly from the young man's own mind I think.

H.M.Jr: (To Lochhead) Sterling is 4.90.

Lochhead: (Nods yes) Francs are steady and guilders are steady.

H.M.Jr: (On phone) Chairman Eccles, please.
Have you (Gaston) got my statement?

Gaston: Yes.

H.M.Jr: Everybody here in the room seen it?

Gaston: No (handing statement to Secretary). No, I think not.

H.M.Jr: I'll read it out loud.

"Developments which have recently manifested themselves in the capital markets threaten to affect adversely the orderly progress of economic recovery. In order to counteract these developments, the Treasury and the Federal Reserve System have decided upon the following course of action, effective as of Monday, April 5:

"1. The Treasury will deposit with the Federal Reserve banks \$400,000,000 of gold certificates, issued against gold which has been held inactive. This action is in conformity with the policy with respect to acquisitions of gold announced by the Secretary of the Treasury on December 22, 1936, after

conferring with the Board of Governors of the Federal Reserve System.

"2. The Federal Reserve System will increase its holdings of United States Government securities through open market operations.

"The purpose of the combined action is to maintain an orderly capital market, which is essential for the restoration of full employment, and for the effective utilization of the country's productive resources."

(To Upham) Want to take a look at it? I mean do you want a copy? Take a look at it (handing Upham copy).

Lochhead: May I ask, if we take that out - sterilized gold - what will you do with the gold that continues to come in now?

H.M.Jr: Sterilize it.

Lochhead: You will continue to sterilize it.

H.M.Jr: (On phone) Hello? Thank you. (Has conversation with Chairman Eccles, recorded on dictaphone at 12:35 p.m.) (attached and follows this page.)

You (Upham) say he has a machine, too.

Upham: Yes.

H.M.Jr: Just like this?

Upham: Well, I haven't seen it but it is similar. Ransom had it put in while Eccles was in the South, so that he could talk to the whole group over there at once.

H.M.Jr: Has he got a recording machine?

Upham: I don't know.

H.M.Jr: Well listen, my advice to you is that you can all go play golf.

Mrs. Klotz: Serious?

April 3, 1937
12:35 p.m.

H.M.Jr: Hello?

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello?

Eccles: Hello?

H.M.Jr: How is it going?

E: Oh, I'm still alive.

H.M.Jr: Well, that's something.

E: Well, I - I think it's going along all right. Of course, you know you've got to let them all talk and - and give them a perfectly free discussion, but I - I feel hopeful about the situation. They've gotten down to - to a pretty serious consideration of the problem and - and they're not making impassioned speeches, and it's my feeling that they have a - they see we're in a crisis, and that they are, of course, desirous of doing the right thing, and I have given them to understand very definitely, as Dr. Goldenweiser has, that due to failure to set up to the present time, without blaming anybody for that individually because you'd be in an indefinite argument about that, that - that we are now up against a situation of either cooperating with the Treasury and - or standing out here refusing to do anything and let the Treasury go alone, which would be a most unfortunate thing for the Reserve System. I told them that it was your desire to have cooperation; that you were very loathe, of course, to have any breaks develop, but at the same time you had made up your mind that - that somebody had to take charge of the capital market.

H.M.Jr: Ah-ha.

E: And that's about the - the sum and substance. Now I - there is - they've been looking at the statement, and there is considerable criticism. They feel that they - that - that it's fraught with some danger, and I think it's well to let them try their hand. I told them that - that

you were not set on - you were set on making a statement, but you weren't set necessarily on every word in the statement or on the exact text of the statement.

H.M.Jr: All right; fine.

E: That you'd be glad, I was sure, to have the suggestions.

H.M.Jr: As long as the objectives aren't changed.

E: That's right. I - I don't know whether you'd be willing or not to have the Reserve System go it alone and make definite announcement that they were going to buy and undertake to buy and have the Treasury withhold action for the time being.

H.M.Jr: Well, of course, we don't think it would be enough here. That's the thing - we don't think it would do the trick.

E: The - of course, the market is pretty strong this morning.

H.M.Jr: I know but now I told you why it is and what I did yesterday, and I had the three-way program.

E: Yes.

H.M.Jr: And I don't think unless we go through the whole - the three-way program ~~they~~ are going to do it.

E: Well, I - I - that's what I've told them.

H.M.Jr: I mean - I - I've just burned myself out over this, Marriner, and I've kept quiet, and I think anything less than this three-way program which I laid out last night that - I - I don't think it's going to go across. Now, the fact that the market was up yesterday and that it went up this morning - then it receded again - I don't want to go into a long argument but we - we feel that due to many things which you're just as conscious of as we are that 500 million excess reserves is not enough.

- E: Well of course I recognized that. At least it isn't enough for the time being that's certain because they - you haven't gotten past the May 1st period and they really don't know what they're going to have, you see - individual - the banks individually don't.
- H.M.Jr: I think this has got to be a three-way program, Marriner, and I can't recede from the position that I.....
- E: One of the points that the - ah - that some of them have made.....
- H.M.Jr: Yes.
- E:is, of course, whether or not the announcement of putting a substantial amount of gold back into the picture.....
- H.M.Jr: Yes.
- E:would have an inflationary effect so that if the bonds did go up a little ways that there would be a lot of people and a lot of institutions that not because of the need for selling at all but merely that they felt that this meant an inflationary development and this was a good time to get out of long-term securities. I mean that - that seems to me the question.
- H.M.Jr: You know what my answer to that is?
- E: What.
- H.M.Jr: These boys raised the reserve requirements in order to - ah - ah - put a damper on - on - on commodity prices.
- E: No, that isn't why we did it to get close to the market; I mean to get to a point where we would.....
- H.M.Jr: Well -
- E:have - be able to - action by buying or selling would really influence the market. In other words, it was a question of a move to get into position - that's - that was the purpose.

H.M.Jr: And you got yourself into position and the commodities have gone up steadily ever since.

E: Oh well I didn't feel we could control commodities as I said in my statement in substance of any monetary needs to where you got unemployment to try to fight money to control commodities would be perfectly wrong and its very definitely against my view of the thing.

H.M.Jr: I know but - but - but.....

E: And I don't.....

H.M.Jr: then the thing gets down to what good did this thing do? Look, Marriner

E: Yes.

H.M.Jr: These fellows, of course, don't want the Treasury to do anything because it looks as though the Treasury has to step in to help this situation out and they can think of a lot of reasons why they don't want the Treasury to do something. Now I have played more than fair with the Federal Reserve; I've kept my mouth shut but I feel - I mean the thing is crystallized in my mind and from now until the first of July I think we need another - more excess reserves than what we've got and I'm willing - you can tell them to sit down with these fellows any time and reconsider this thing but at this time, just doing this thing, I've got to say this - I hate to say this but I think the Federal Reserve has lost caste and I - they haven't handled this situation and I think they've lost caste; now I think the Treasury and the Federal Reserve have got to move together plus what the President has done and will do to assist us. - Ah - ah - and - ah.....

E: Well, of course, I think a definite assurance with reference to the budget would be one of the most favorable - that would almost offset any putting of gold in because it.....

H.M.Jr: No - no -.....

E:the - the budget is.....

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- H.M.Jr:No - no, Marriner, I cannot and, I'm sorry, I will not recede from my decision of last night. I'm not going to recede from it - I mean - ah - you were in entire sympathy; we went through this whole thing before and now these boys are.....
- E: I'm not - I'm not arguing for you to recede; I'm just merely giving you the picture because I've got a tough job here with a big group of fellows and it's just a question of knowing - ah - ah - what.....
- H.M.Jr: Well if these boys are going to go to work on you now - and I - I can't recede.
- E: Yes.
- H.M.Jr: I - I mean the situation is so and, as I say, the Federal Reserve hasn't been able to handle it; they didn't rise to the occasion; they didn't do anything about it; they've left this thing just slip every day and I'm not going to sit here and - and - and let this thing continue to - the situation has taken me three years; everything that I've got to build up the government where it is and then just see it slip from under my feet. I mean I'm not going to do it.
- E: Well I'll - I'll report to them that - that so far as the putting in of 400 million of gold is concerned that, whether they do anything or not, you're at least going to do that.
- H.M.Jr: Yep.
- E: And - ah - you'd like to have them cooperate by making a joint statement indicating that they are going to carry out an open market operation.
- H.M.Jr: Well certainly last night, when you left my house, you were in entire accord with what we were talking about.
- E: Well I'm not out of - I'm not out of harmony now. I'm not - I'm - I'm - I'm - but I can't go into a meeting of 12 people and simply use a club, you know. After all, you get - you wouldn't get cooperation. What I'm trying to do is to just say to them exactly what the situation is and I've reported to you the situation here and I'm merely asking you.....
- H.M.Jr: Yes.

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- E:ah - if you would be willing to consider that. Now if you won't then I'm - I'm not arguing for it at all; I'm not making a case - I'm merely telling you what some of the reactions are.
- H.M.Jr: Then let me ask you, "Marriner Eccles have you changed from your position of last night"?
- E: No I haven't changed from my position at all. My position last night, of course, was that you put in less than the 400 million and - ah - and state that - ah - ah - if necessary you'd put more in; that would put the Reserve people on the spot here so that in carrying out an open market operation by God they'd have to do it - satisfactory to you. That was the only - that was my position. Ah - ah.....
- H.M.Jr: I thought the statement, as written last night, was agreeable to you.
- E: Well when we left I - I told you that the statement was agreeable but I preferred the other.
- H.M.Jr: Yes, but you were in agreement with the statement.
- E: Why, yes, of course, I mean I wouldn't say that if it isn't that statement I wouldn't go along. That isn't my position at all.
- H.M.Jr: No, I understood that the statement, as written last night, met with your approval.
- E: Well when I left you last night.....
- H.M.Jr: Yes.
- E:I said, "Now keep your mind open on that 260 million", you remember? The last thing I said and you said you'd sleep on it.
- H.M.Jr: Yes but I said that - but I also told - and Goldenweiser said that as far as I was concerned it was 400 million and.....
- E: That's right - that's what you said but I said to you, didn't I, just as I left I said, "Well now let's sleep on this thing. We don't want to make a mistake. Keep your - keep....."

H.M.Jr: Well I don 't remember it. Let me ask Taylor, he's sitting here.

E: All right.

H.M.Jr: Let me ask him.

(Pause)

H.M.Jr: Hello

E: Yes.

H.M.Jr: Ah - Taylor says the way he understands it - when we left it was agreeable but you asked me to think about it again.

E: That's right.

H.M.Jr: But it was agreeable as written.

E: That's right; that's correct but I preferred the other.

H.M.Jr: Incidentally, we've got a hundred million dollars worth of gold on the ocean right now.

E: Oh my gosh.

H.M.Jr: Yes.

E: Well we've got to do something about that. I mean that's another problem aside from this that's damn serious.

H.M.Jr: Yes. Now as to time because I've got a lot of golfers in the Treasury, see?

E: (Laughs)

H.M.Jr: And some race-track fans and our-Bowie starts at 2:15. Now - ah - when are you fellows coming up for air again?

E: Well I don't - I - I - I don't think that. I think this thing is sufficiently important that these fellows better pass up their golf and their race; I'm doing all that I can but after all there's such a thing as trying to push a thing to a breaking point and I don't want to do that.

- 8 -

- H.M.Jr: No I'm - I'm not going to the racetrack and I'm not going to play golf but I want to know when they can come back; they can go out - the way I figure they.....
- E: Oh - oh.
- H.M.Jr:I figure they can all go to the races.
- E: I think so, you tell them to go.
- H.M.Jr: That's what I meant.
- E: No, I think they can.
- H.M.Jr: Well that's what I meant - when we - when will you want to talk to me again?
- E: Well I told these fellows that we ought to at the latest get through this thing by two o'clock. I - I don't - I tried to - I said that I had to see the Secretary and we possibly expect to go over and see the President and then we'd have a Press Conference so I said, "You can see the question of time is of essence".
- H.M.Jr: Well aren't you going to eat?
- E: I don't think - I don't think till we get through. I'd keep them in there; maybe starve them; there's some advantage in that you know.
- H.M.Jr: Well I'll tell you what we'd - I'd do. I'm - I've got lunch at 1:15 with my daughter and after lunch I'll call you up.
- E: All right, will you do that?
- H.M.Jr: I - I - supposing I do that.
- E: All right. If I happen to be out to lunch then I'll - leave word and - where I can call you and I'll call you as soon as I get back, that is, if I should be out when you get through with lunch with your daughter and should call me.
- H.M.Jr: Well now let's leave it this way - because/you go out - call me if you're going to go out.

E: You'll be home?

H.M.Jr: I'll either be at the offi - Treasury or home.

E: All right, before I go out to lunch I'll call you.

H.M.Jr: O.K.

E: Fine.

H.M.Jr: Thank you.

E: Goodbye.

H.M.Jr: Yes.

Taylor: At 2:00? 2:30 maybe.

H.M.Jr: I'll give you three. I'll give you even money.

Bell: I think they're through now.

Mrs. Klotz: Through before they begin.

Bell: Don't you (H.M.Jr.)? I think they're through now.

H.M.Jr: What do you mean?

Bell: Might as well adjourn now.

H.M.Jr: Do you know what Goldenweiser said last night? He said before Eccles came - he was kind of talkative - he said, "Do you know what they ought to do? They ought to say, 'The meeting has come to order; let's take a vote.' You'll be just as far then as you will be two days later." He said all the argument isn't going to change anybody.

Taylor: If all they're arguing about at the present time is the wording of the statement, that means that they are pretty well agreed.

H.M.Jr: He (Eccles) didn't say that.

Now let's, in this room - if anybody - if anybody thinks I am unfair they can say so. We have gone through this thing with Eccles again and again, and Eccles has agreed, and he goes over and somebody starts talking and he turns a somersault, and then we've got to do our work over again. I'm not going to wear myself out doing it. I'm taking my position and there I am and there I stay, and the only person that can make me change is the President of the United States.

You've seen him (Eccles), Cy, haven't you - you've seen him come in and agree to something, then those boys give him the works and he changes. Am I unfair?

Upham: No, I don't think you are unfair.

H.M.Jr: He agreed to this thing. He did say - or Goldenweiser, he said, "Think it over again." I said, "No, it's 400 million." Didn't I? Am I wrong? I mean

Bell: You said to let it stand at 400 million and we would sleep on it, but let it stand at 400 million.

H.M.Jr: 400 million.

Haas: That was your reservation. You told him he could talk five, you know.

H.M.Jr: I said he could talk five, but my figure was four.

Taylor: It was up to him whether he wanted to talk five.

H.M.Jr: (On phone) Miss Marguerite LeHand, please. - - - Miss Marguerite LeHand? How do you do. I told a man by the name of Roosevelt that Mr. Eccles and I would most likely want to see him this afternoon to clear a very, very important statement that we are thinking of making Monday morning, to look after your bonds. Have you still got those 1 $\frac{1}{2}$ % bonds? - - - You have not? You sold it? - - - That's what made the bond market go down. I wondered where the Ethiopian was. I knew something was wrong somewhere. I knew that there was big selling somewhere. - - - Now listen, is he going out for a drive or something? - - - Well, I just got through talking to Eccles. He's got his whole Board here, 12 of them, and he doesn't know when he's going to get through. - - - But I just wondered if he was going to take a drive. - - - Well then, what I'll - I'll have to take my chances. Are you going to be in this afternoon? - - - Well then, when Eccles and the rest of them make up their mind, may I give you a ring? - - - And sold all your Governments? - - - You're a pal.

Bell: Ask her where she got her advice. I want to know where she got her advice. Maybe from the President.

Mrs. Klotz: I was just going to say that.
(Phone conversation finished)

H.M.Jr: She said, "I sold my one bond."
I tell you exactly what I'm going to do, and everybody can do what they please. I told Joan I'd have lunch with her at 1:15. Everybody's got to eat somewhere, don't they? And if this thing Where are you going to go, Herbert?

Gaston: Oh, I'll have lunch downtown somewhere.

H.M.Jr: And Wayne?

Taylor: Downtown somewhere.

H.M.Jr: I'll let you fellows know at 2:00 whether I'm going to take a sleep, and if I take a sleep you can all go out and play golf; for two hours and a half you can all go out.

Taylor: I think I'll get a hair cut and go to the movies.

H.M.Jr: How about you, Dan?

Bell: I'll be here until about four. I have a dinner engagement in Baltimore.

H.M.Jr: What?

Bell: A dinner engagement in Baltimore.

H.M.Jr: You may get there. What time is it, if I might ask?

Bell: I'm supposed to leave here at four and get over there by five thirty.

H.M.Jr: On the train?

Bell: No, driving.

H.M.Jr: Well, let's see - you (Haas)

Haas: I'll be available.

H.M.Jr: Look, be available so that if I call up at two and I get Marriner - didn't I say I'd call him up at two?

Mrs. Klotz: No, he said he'd call you if he went out.

Taylor: You said that you'd call him after you'd got back from your lunch.

Gaston: He was to call the Secretary and the Secretary would be either here or at home.

H.M.Jr: Before he went to lunch.

Mrs. Klotz: And if he didn't go to lunch, you'd call him at two.

H.M.Jr: Let me just go around the room. Does anybody think what I said to Marriner - that I won't recede from my position - is a mistake?

Taylor: (Nods no)

H.M.Jr: Or recede from this statement? I don't mean words, but I mean as to the purpose.

Taylor: (Nods no)

H.M.Jr: Herbert?

Gaston: Not now. No, I don't think it is a mistake.

H.M.Jr: Why do you say "Not now"?

Gaston: Well, I mean in any event if you were going to recede, I wouldn't

H.M.Jr: Would you have done it at 12:00?

Gaston: No. I mean I'd wait until - take certainly a firm position until that Board is through with its meeting.

H.M.Jr: All right. Cy?

Upham: I agree with Herbert.

H.M.Jr: What's that?

- Upham: I agree with Gaston.
- H.M.Jr: You do.
- Lochhead: I agree absolutely.
- Haas: I'd stay firm.
- Bell: I agree with that. I don't know as I'd stay firm indefinitely, but I'd stay firm right now, if you are satisfied with the position; stay there until they take some position, then decide what you'll do.
- Gaston: After we get all through with it, and then they won't go along, we'll have to readjust the position and decide what to do independently.
- H.M.Jr: Well, those of you who weren't there last night, I want to get this over. Marriner Eccles agreed to this thing last night, and this is the last thing he said to me. Now, you (Bell) check me. He said, "If my Board doesn't go with me, I want to know whether you in your statement will include Marriner Eccles, as Chairman of the Federal Reserve Board, and say that I agree with what the Secretary of the Treasury is doing. Will you include me in any statement?"
- Gaston: He said, "I'd like to be included - I'd like to be associated in the statement as Marriner Eccles, Chairman of the Board of Governors of the Federal Reserve System."
- Bell: That's right.
- H.M.Jr: That's what he said - "Will you include me in your statement?" Whereupon Elliot Thurston said, "Well, if you do that, then the Board's got to go along." He said, "I don't want to be tied up with these banks and be known" He said, "Will you include me in your statement, so I can be known publicly to be in accord with what you are doing?"
- I want you to get that background, Cy. It's terribly important.

Haas: He hasn't pulled that yet over there, evidently.

Gaston: He said that would be his final argument, and he'd tell them flatly.

H.M.Jr: Well, I sincerely hope that the Board and the Treasury can go together. I sincerely hope - I think it would be terrible if they didn't. I think that would be the worst thing of all.

Well, you will all hear from me. I'm awfully sorry, but I do think that this is about one of the most important things we have had since the Tripartite Agreement. Don't you (Taylor)?

Taylor: (Nods yes) As far as this country is concerned, it is a hell of a lot more important.

H.M.Jr: And fortunately, I am in a very quiet, self-contained mood, because I know what is the right thing to do now. I know what I think we should do.

Well, I'll go on home and have lunch with Joan and then I'll phone the office here around 2:00. How's that? I'm awfully sorry - a lovely day like this, but

Mrs. Klotz: There will be others.

H.M.Jr: There will be others.

Taylor: How do you know?

Bell: What a big help you are.

Taylor: Just because there always have been?

April 3, 1937
12:35 p.m.

H.M.Jr: Hello?

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello?

Eccles: Hello?

H.M.Jr: How is it going?

E: Oh, I'm still alive.

H.M.Jr: Well, that's something.

E: Well, I - I think it's going along all right. Of course, you know you've got to let them all talk and - and give them a perfectly free discussion, but I - I feel hopeful about the situation. They've gotten down to - to a pretty serious consideration of the problem and - and they're not making impassioned speeches, and it's my feeling that they have a - they see we're in a crisis, and that they are, of course, desirous of doing the right thing, and I have given them to understand very definitely, as Dr. Goldenweiser has, that due to failure to act up to the present time, without blaming anybody for that individually because you'd be in an indefinite argument about that, that - that we are now up against a situation of either cooperating with the Treasury and - or standing out here refusing to do anything and let the Treasury go alone, which would be a most unfortunate thing for the Reserve System. I told them that it was your desire to have cooperation; that you were very loath, of course, to have any breaks develop, but at the same time you had made up your mind that - that somebody had to take charge of the capital market.

H.M.Jr: Ah-ha.

E: And that's about the - the sum and substance. Now I - there is - they've been looking at the statement, and there is considerable criticism. They feel that they - that - that it's fraught with some danger, and I think it's well to let

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them try their hand. I told them that - that you were not set on - you were set on making a statement, but you weren't set necessarily on every word in the statement or on the exact text of the statement.

H.M.Jr: All right; fine.

E: That you'd be glad, I was sure, to have the suggestions.

H.M.Jr: As long as the objectives aren't changed.

E: That's right. I - I don't know whether you'd be willing or not to have the Reserve System go it alone and make definite announcement that they were going to buy and undertake to buy and have the Treasury withhold action for the time being.

H.M.Jr: Well, of course, we don't think it would be enough here. That's the thing - we don't think it would do the trick.

E: The - of course, the market is pretty strong this morning.

H.M.Jr: I know but now I told you why it is and what I did yesterday, and I had the three-way program.

E: Yes.

H.M.Jr: And I don't think unless we go through the whole - the three-way program they're going to do it.

E: Well, I - I - that's what I've told them.

H.M.Jr: I mean - I - I've just burned myself out over this, Marriner, and I've kept quiet, and I think anything less than this three-way program which I laid out last night that - I - I don't think it's going to go across. Now, the fact that the market was up yesterday and that it went up this morning - then it receded again - I don't want to go into a long argument but we - we feel that due to many things which you're just as conscious of as we are that 500 million excess reserves is not enough.

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- E: Well of course I recognized that. At least it isn't enough for the time being that's certain because they - you haven't gotten past the May 1st period and they really don't know what they're going to have, you see - individual - the banks individually don't.
- H.M.Jr: I think this has got to be a three-way program, Marriner, and I can't recede from the position that I.....
- E: One of the points that the - ah - that some of them have made.....
- H.M.Jr: Yes.
- E:is, of course, whether or not the announcement of putting a substantial amount of gold back into the picture.....
- H.M.Jr: Yes.
- E:would have an inflationary effect so that if the bonds did go up a little ways that there would be a lot of people and a lot of institutions that not because of the need for selling at all but merely that they felt that this meant an inflationary development and this was a good time to get out of long-term securities. I mean that - that seems to me the question.
- H.M.Jr: You know what my answer to that is?
- E: What.
- H.M.Jr: These boys raised the reserve requirements in order to - ah - ah - put a damper on - on - on commodity prices.
- E: No, that isn't why we did it to get close to the market; I mean to get to a point where we would....
- H.M.Jr: Well -
- E:have - be able to - action by buying or selling would really influence the market. In other words, it was a question of a move to get into position - that's - that was the purpose.

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H.M.Jr: And you got yourself into position and the commodities have gone up steadily ever since.

E: Oh well I didn't feel we could control commodities as I said in my statement in substance of any monetary needs to where you got unemployment to try to fight money to control commodities would be perfectly wrong and it's very definitely against my view of the thing.

H.M.Jr: I know but - but - but.....

E: And I don't.....

H.M.Jr: then the thing gets down to what good did this thing do? Look, Marriner

E: Yes.

H.M.Jr: These fellows, of course, don't want the Treasury to do anything because it looks as though the Treasury has to step in to help this situation out and they can think of a lot of reasons why they don't want the Treasury to do something. Now I have played more than fair with the Federal Reserve; I've kept my mouth shut but I feel - I mean the thing is crystallized in my mind and from now until the first of July I think we need another - more excess reserves than what we've got and I'm willing - you can tell them to sit down with these fellows any time and reconsider this thing but at this time, just doing this thing, I've got to say this - I hate to say this but I think the Federal Reserve has lost caste and I - they haven't handled this situation and I think they've lost caste; now I think the Treasury and the Federal Reserve have got to move together plus what the President has done and will do to assist us. - Ah - ah - and - ah.....

E: Well, of course, I think a definite assurance with reference to the budget would be one of the most favorable - that would almost offset any putting of gold in because it.....

H.M.Jr: No - no -.....

E:the - the budget is.....

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- H.M.Jr: No - no, Marriner, I cannot and, I'm sorry, I will not recede from my decision of last night. I'm not going to recede from it - I mean - ah - you were in entire sympathy; we went through this whole thing before and now these boys are.....
- E: I'm not - I'm not arguing for you to recede; I'm just merely giving you the picture because I've got a tough job here with a big group of fellows and it's just a question of knowing - ah - ah - what....
- H.M.Jr: Well if these boys are going to go to work on you now - and I - I can't recede.
- E: Yes.
- H.M.Jr: I - I mean the situation is so and, as I say, the Federal Reserve hasn't been able to handle it; they didn't rise to the occasion; they didn't do anything about it; they've left this thing just slip every day and I'm not going to sit here and - and - and let this thing continue to - the situation has taken me three years; everything that I've got to build up the government where it is and then just see it slip from under my feet. I mean I'm not going to do it.
- E: Well I'll - I'll report to them that - that so far as the putting in of 400 million of gold is concerned that, whether they do anything or not, you're at least going to do that.
- H.M.Jr: Yep.
- E: And - ah - you'd like to have them cooperate by making a joint statement indicating that they are going to carry out an open market operation.
- H.M.Jr: Well certainly last night, when you left my house, you were in entire accord with what we were talking about.
- E: Well I'm not out of - I'm not out of harmony now. I'm not - I'm - I'm - I'm - but I can't go into a meeting of 12 people and simply use a club, you know. After all, you get - you wouldn't get cooperation. What I'm trying to do is to just say to them exactly what the situation is and I've reported to you the situation here and I'm merely asking you.....
- H.M.Jr: Yes

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- E:ah - if you would be willing to consider that. Now if you won't then I'm - I'm not arguing for it at all; I'm not making a case - I'm merely telling you what some of the reactions are.
- H.M.Jr: Then let me ask you, "Marriner Eccles have you changed from your position of last night?"
- E: No I haven't changed from my position at all. My position last night, of course, was that you put in less than the 400 million and - ah - and state that - ah - ah - if necessary you'd put more in; that would put the Reserve people on the spot here so that in carrying out an open market operation by God they'd have to do it - satisfactory to you. That was the only - that was my position. Ah - ah.....
- H.M.Jr: I thought the statement, as written last night, was agreeable to you.
- E: Well when we left I - I told you that the statement was agreeable but I preferred the other.
- H.M.Jr: Yes, but you were in agreement with the statement.
- E: Why, yes, of course, I mean I wouldn't say that if it isn't that statement I wouldn't go along. That isn't my position at all.
- H.M.Jr: No, I understood that the statement, as written last night, met with your approval.
- E: Well when I left you last night.....
- H.M.Jr: Yes.
- E:I said, "Now keep your mind open on that 260 million," you remember - the last thing I said; and you said you'd sleep on it.
- H.M.Jr: Yes but I said that - but I also told - and Goldenweiser said that as far as I was concerned it was 400 million and.....
- E: That's right - that's what you said but I said to you, didn't I, just as I left I said, "Well now let's sleep on this thing. We don't want to make a mistake. Keep your - keep....."

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H.M.Jr: Well I don't remember it. Let me ask Taylor, he's sitting here.

E: All right.

H.M.Jr: Let me ask him.

(Pause)

H.M.Jr: Hello

E: Yes.

H.M.Jr: Ah - Taylor says the way he understands it - when we left it was agreeable but you asked me to think about it again.

E: That's right.

H.M.Jr: But it was agreeable as written.

E: That's right; that's correct but I preferred the other.

H.M.Jr: Incidentally, we've got a hundred million dollars worth of gold on the ocean right now.

E: Oh my gosh.

H.M.Jr: Yes.

E: Well we've got to do something about that. I mean that's another problem aside from this that's damn serious.

H.M.Jr: Yes. Now as to time because I've got a lot of golfers in the Treasury, see?

E: (Laughs)

H.M.Jr: And some race-track fans and our - Bowie starts at 2:15. Now - ah - when are you fellows coming up for air again?

E: Well I don't - I - I - I don't think that. I think this thing is sufficiently important that these fellows better pass up their golf and their race; I'm doing all that I can but after all there's such a thing as trying to push a thing to a breaking point and I don't want to do that.

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H.M.Jr: No I'm - I'm not going to the racetrack and I'm not going to play golf but I want to know when they can come back; they can go out - the way I figure they....

E: Oh - oh.

H.M.Jr:I figure they can all go to the races.

E: I think so, you tell them to go.

H.M.Jr: That's what I meant.

E: No, I think they can.

H.M.Jr: Well that's what I meant - when we - when will you want to talk to me again?

E: Well I told these fellows that we ought to at the latest get through this thing by two o'clock. I - I don't - I tried to - I said that I had to see the Secretary and we possibly expect to go over and see the President and then we'd have a Press Conference so I said, "You can see the question of time is of essence."

H.M.Jr: Well aren't you going to eat?

E: I don't think - I don't think till we get through. I'd keep them in there; maybe starve them; there's some advantage in that you know.

H.M.Jr: Well I'll tell you what we'd - I'd do. I'm - I've got lunch at 1:15 with my daughter and after lunch I'll call you up.

E: All right, will you do that?

H.M.Jr: I - I - supposing I do that.

E: All right. If I happen to be out to lunch then I'll - leave word and - where I can call you and I'll call you as soon as I get back, that is, if I should be out when you get through with lunch with your daughter and should call me.

H.M.Jr: Well now let's leave it this way - because if you go out - call me if you're going to go out.

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E: You'll be home?

H.M.Jr: I'll either be at the offi - Treasury or home.

E: All right, before I go out to lunch I'll call you.

H.M.Jr: O.K.

E: Fine.

H.M.Jr: Thank you.

E: Goodbye.

MEETING AT 2201 R STREET RE
BOND MARKET - INTEREST RATE
SITUATION

April 3, 1937
8:50 p.m.

Secretary Morgenthau
Mr. Eccles
Mr. Goldenweiser
Mr. Harrison
Mr. Burgess
Mr. Broderick
Mr. McKee
Mr. Sinclair
Mr. Williams
Mr. Bell
Mr. Gaston
Mr. Taylor
Mr. Haas
Mr. Upham

H.M.Jr:

I'll talk awful fast, because the others are coming at nine.

I took Eccles with me to see the President and we were with him for an hour. And the first reaction that the President had was In the first place, you people know Eccles takes the position now that he didn't want us to put any gold in. I mean he wasn't in favor of it. Well, any way, the President - the first thing when he read this, he said, "Well, just putting this gold in means - won't this be interpreted as inflationary?" I said, "It might."

Well, we went over the whole thing, and then during the conversation I said, "Well, the way I feel is that due to the action of the Federal Reserve Board on increasing reserve requirements - that is largely responsible for tightening up this situation. Now, if the stumbling block is that they don't want us to put the gold in, I am willing to withdraw the suggestion if they will postpone their May 1st action." So Eccles said, "Well, you hadn't said that before." I said, "No, because I didn't feel it's up to me, but I will

say it now before the President." Eccles says, "Well, I'm opposed to that." He said, "Change of policy, turn-about, etc., we have said this is a clumsy instrument, etc."

The President then made what I thought was a very excellent suggestion, and his suggestion to me was to say to these men here - he didn't say it in just these words, but this was the purpose, and it was: "You have been given by Congress this responsibility to look after the money market, to keep an orderly market. You haven't done it. You have muffed it. Now I, Henry Morgenthau, Jr., speaking for the United States Government, serve notice on you that we expect you to do this, and we are going to give you one more chance. If you don't do it, then the United States Government, through the Treasury, will take over the entire responsibility. We are going to put this on to you now and give you one more chance." And Eccles is entirely satisfied with that. He says he is a hundred per cent for that. What? Now I think it's all right.

Gaston: Fair enough.

Taylor: Perfect.

Gaston: Fair enough, fair enough.

H.M.Jr: Put them on notice; don't argue with them, and don't tell them how to do it, but we want an orderly market, and they have not kept an orderly market, and it is their responsibility. Now, I can go over and over it again, but I'll just put them on notice that if they don't do it, the United States Government will step in and do it.

Taylor: (Nods yes)

H.M.Jr: Now, I've got not only the President back of me But I didn't want to go into this meeting not knowing how he felt, because Eccles called me up all through the afternoon and more and more - "This means a break," he said - and then he kept receding from his position.

I said, "Well, didn't you agree to this statement?" "Well, I agreed to it because you insisted but it isn't what I want."

Then he explained the whole thing. And then, what I can't understand, in meeting with the people he said, "I had in the words 'if necessary' but Mr. Morgenthau made me take it out. I didn't want to take it out. I don't want him to put any gold in, but he made me put it in." Now, how the hell you going to convince anybody talking like that?

Gaston: Well, they all conceded that point - that it was valid.

H.M.Jr: Listen, I want to sell you a piece of goods and I say, "This is the cloth you want." But you say, "Mr. Morgenthau, that's too heavy for the summer; I want a lighter piece of goods." But I persuade you to take this piece of goods. But Mrs. Gaston comes along and says, "I don't like it." "Well, I told him - I told my tailor I wanted a lighter piece of goods, but he convinced me this was the piece of goods. Yes, my wife, you're right; it isn't the suit I wanted, but my tailor convinced me." Huh?

(Hearty laughter)

I mean how can you convince anybody talking like that? I mean he gave every single argument and made it appear - this is what he did - as though I was forcing this thing down his throat.

Gaston: Today?

H.M.Jr: To his boys.

Gaston: Yes.

H.M.Jr: Now last night as he left here, he not only - he also said, "I didn't want it, but I told you I wanted the 250." He never said that; that was Goldenweiser.

- Gaston: That was Goldenweiser, yes.
- H.M.Jr: And then when I told him, "Why you told these boys" - you (Upham) wrote the memorandum, I think, weeks ago - "The original idea of putting gold in was yours."
- Haas: That's right. I wrote that.
- Gaston: It didn't date only two weeks ago; it dates from the time he put on the additional reserve requirements. He told our boys at that time - that we could fix this up with gold deposits if necessary.
- H.M.Jr: Well, when the President was so smart - Eccles was sliding out from under us, see? Now he has said that he is vigorously in favor of doing the open market operations. That will also increase excess reserves. And if they don't do it, then he is through. Now, he has said that thing. There's no argument.
- Then he tried to explain to me that Harrison - and I can't get this, and I wanted to get home to get my dinner - but as near as I could get it, that Harrison wouldn't do anything and that Harrison wants the Treasury to put the gold in. That just doesn't make sense. That's the last thing that he said to me, that Harrison wants the Treasury to put the gold in.
- Taylor: Well, there's something cock-eyed because
- H.M.Jr: That's why I'm so tickled to have Naster here. That's why I'm so tickled to have Naster here. I handle so many things and the things happen so fast, I can't remember all these things; I mean I just can't remember them. I mean it isn't a question of my word, but then these things happen so fast and they are so vital.
- And Eccles said, "It's a crisis," and that the only answer is for the Treasury to split with the Federal Reserve and all that, and that it had come to that point. And I said, "Well, are you with us?" "Well, I don't want you to put the gold in," he says.

Taylor: Well, as I say, there is something cock-eyed about this because all through the period while you were away I was talking open market to these boys, you see. Couldn't get them to touch it. Marriner gets back - remember when I told you that he was coming over that afternoon - he comes up to me and says, "We've got to do something and it's got to be gold, see?"

H.M.Jr: That was Thursday.

Taylor: Yes, that was Thursday before you came back.

H.M.Jr: And he told you it had to be gold.

Taylor: Yes. I said, "Marriner, I don't agree with you. I think open market should have been done before."

H.M.Jr: Just what your position was.

Taylor: I feel exactly the same way. It certainly has to be one or the other. I think it ought to be open market first.

H.M.Jr: And he on Thursday said it was gold. Well, he's completely turned another somersault.

Taylor: I had this battle with him.

H.M.Jr: Well, Wayne, you've done business with me long enough - sometimes I can't remember, but at least I stay put.

Haas: This memorandum last night when it came in, had gold, and they said so much and more if necessary; and down below it had open market operations if necessary. They didn't intend to use any open market operations; the whole thing was to be gold.

Gaston: Yes, yes, yes. That was the way they had it last night.

Taylor: I think it's fine that it has switched around the way it is now.

- H.M.Jr: Listen, the President is a swell newspaper reporter and what he saw quickly was that this puts the position that the Government - because you can't disassociate the Treasury - in a position that we are inflationary, and it wouldn't be in tune with what he said Friday, and he saw that quickly. But I saw - I have said right along that I was willing to take it on; I couldn't see any other way to force these boys' hands.
- Taylor: Well, it's forced where it ought to be and it's fine.
- Haas: I wouldn't take - I wouldn't do gold alone.
- H.M.Jr: No, I'm not going to do anything tonight. But I'm authorized to say that the United States Government serves notice on the Federal Reserve Board that they've got to keep an orderly market. Now if they don't
- Taylor: It's just where it ought to be right now.
- (Bell comes in)
- H.M.Jr: Listen, I'll talk awfully fast. Tonight when I left this fellow at 7:30 at the White House he was so - well, I've been all through this with Eccles on sterilized gold; my God, look how much he changed.
- (Messrs. Eccles, Goldenweiser, Harrison, Burgess, Broderick, McKee, Sinclair and Williams come in)
- H.M.Jr: Well, Mr. Eccles, do you want to talk for your crowd first?
- Eccles: Well, I don't think so. I think I've talked to this crowd until they - I'm just about talked out.
- H.M.Jr: Is that possible?
- Eccles: Well, it is about as near as it's ever been. I didn't think it was, but I've changed my mind just about.

H.M.Jr:

Well, the purpose of this meeting, as I understand it, is to see whether the Federal Reserve and the Treasury can get together. I had a number of talks with your Chairman during the week, and I had one last night, where we had a meeting of the minds after some swapping. And then I've been in touch two or three times with Mr. Eccles today, and I gathered that we weren't making much headway. So, knowing that this meeting was coming, I wanted to be perfectly sure where I stood as far as the President was concerned. So I asked to see him because the situation - when a situation is as serious as it is, why, naturally if I am talking for the Government, I want to make a thousand per cent sure that I am talking for it, and what I am saying tonight - I didn't want to meet with you people tonight until I had the authority to talk for the Government, which I feel I have tonight.

Now, the way the Treasury feels about what's happened here recently is that the Government securities have been going down rapidly and not in an orderly manner. I have said to Mr. Harrison and to Mr. Burgess that on the actual execution of the orders I have no complaint, but as to the general policy we are not satisfied. Now, we could go into a long discussion - I'd rather not; if I have to, I will - as to why, etc. But I think that the quotations what bonds are selling at tonight and what they were selling at a couple of weeks ago is good enough.

And I simply feel this way, that under the recent Banking Act, the open market committee of the Federal Reserve - I believe I am correct in saying - was given this responsibility, and in the room I want to say frankly that I don't think they have taken it. I don't think - I think they have muffed it and - through not using the device of the open market, and that swapping just hasn't done it.

Now, I never threaten. I don't want to threaten. I just want to make a cold statement, and that is that the Administration

would like to serve notice on this open market committee that we hope and earnestly request that you use the machinery which you have and give us an orderly market. Now, if within a reasonable time you don't or refuse to, then I'm very sorry to say - I have to say that the Government will, and that's the whole story. I'm not threatening, I'm just making a statement. I mean I don't think that you have lived up to the responsibility which Congress gave you.

- Harrison: Specifically, what responsibility, Mr. Secretary?
- H.M.Jr: What the open market committee was set up for. I don't know the legal language.
- Harrison: To accommodate commerce and business?
- H.M.Jr: I don't know just how the thing reads.
- Harrison: I don't intend to quibble with you on terms because I think we are all after the same thing.
- H.M.Jr: I mean I haven't brought any lawyer here. I didn't think this was a legal matter. But - I mean I don't know just how the thing reads. If somebody has the Act, they can read it as to what the purposes and the authority of the open market committee are.
- Eccles: I feel that we do have the authority and, of course, if we are going to get down to strict technical legalistic terms as to what it means to accommodate commerce, agriculture, and business, we might argue that we shouldn't. I know how I feel about it. I'd like to hear Dr. Goldenweiser say something on that point.
- Goldenweiser: On what point?
- Eccles: Well, the point about what is expected of us under the law and our authority.
- Goldenweiser: If I remember the law correctly, Mr. Secretary and Mr. Chairman, it says, "With a view to

accommodating commerce and business and with due regard to the maintenance of sound credit conditions." If any part of it refers to this particular situation, it is more likely the second part - "Sound credit conditions." And "Accommodating commerce and business," of course, is a term that one can interpret in various ways. But, aside from the language of the law, maintenance of an orderly capital market, it seems to me, is a part of the responsibility of the open market committee.

Broderick: Is what?

Goldenweiser: It is a part of the responsibility of the open market committee, and it is purely a matter of interpretation of what is an orderly market and where the responsibility begins and where it ends. On that there are all kinds of different views.

My own view as to what the committee should do, I have had occasion to state both to the committee and to the Secretary and there is no use my repeating.

Eccles: Well, I'll say this. The counsel of the Board was asked today whether under the circumstances we had authority to carry out an open market operation and increase our portfolio. He said - gave a horseback opinion that we did.

H.M.Jr: Did have the authority?

Eccles: Yes.

H.M.Jr: Well, why did you have to ask the lawyer if you had the authority?

Eccles: Well, the question came up there whether under the circumstances we would be justified in carrying on an open market operation to accommodate commerce and agriculture and maintain sound credit conditions - if, according to his legal opinion, see, that we were - he wasn't going to pass upon our justification, but he said so far as the legal question was concerned, there could be no legal question about it.

- H.M.Jr: I mean did you ask the lawyer
If I might ask, how about when they passed
the resolution giving this committee the
right to increase the portfolio by
\$250,000,000? I mean I think you passed
that bridge when you had that resolution.
- Eccles: Well, somebody raised the question.
- H.M.Jr: Well, you passed that resolution, and do
you have to get a legal opinion on that?
- Goldenweiser: If I may say, Mr. Secretary, I think our
counsel gave the best legal opinion today
that I ever heard in my life. He said that
it was not a question of law.
- H.M.Jr: Well, that's all right.
- Harrison: I don't think there is anybody that questions
that we have the right. In fact, I think it
is a part of the function of every central
bank to maintain an orderly money market,
and if there is any question of that
- H.M.Jr: Well, that's all we're asking.
- Harrison: And my question - you said that the Act of
'35 gave particular responsibility to us.
I was quite sincere; I didn't know whether
you were referring to something different
than I thought you were.
- H.M.Jr: No, I mean just the general broad principle.
- Harrison: And I wasn't trying to ask a trick question
or to question our authority at all.
- H.M.Jr: Well, I think, more than that, you have grad-
ually built up common law through usage and
.....
- Harrison: And if we haven't got the authority, we ought
to go to jail now.
- H.M.Jr: What I was trying to say - what we have been
trying to do is - we had a sort of gentleman's

agreement on this whole thing that we work step by step. I mean through the sterilization of gold the purpose was to remove gold from being a domestic influence. And we more and more have been developing a pattern which would leave it to the Federal Reserve to take care of the domestic money market, and that has been the thing gradually building up through the past months.

Harrison:

I don't think there is any question of law. I don't think there is any question of a difference of opinion that I have heard expressed anywhere as to a general objective, Mr. Secretary. I think we all have got the same thing in interest and at heart, and I think we are all, so far as I know, working for the same goal. I think if there is any difference of opinion, it is partly due to the fact that we haven't all sat together and thought out loud continuously, and some difference in emphasis on either method or speed or volume or rate - not a difference in the objective, as I say.

I think it would help some of us on the committee in determining what we should do if we had a little better idea than I think I have of what the Treasury really wants to have happen in the bond market. I asked Chairman Eccles today when we were talking about it, "Supposing the committee had given the executive committee complete authority to buy bonds and increase the portfolio. When should we buy? How much should we buy? When should we stop?" I said, "If the New York bank is to handle it, we've got to have a pretty definite understanding," - a much closer understanding than I've got even tonight - "as to what really is wanted." I just honestly don't know. Do we want to run the bond market up and, if so, how far, or is the objective to stabilize the market where it is and, if so, is that not pretty close to a pegging operation which some of us think - have thought to be unwise in the past?

It is not, as I say, that any of us want to contemplate a disorderly market. It isn't

that any of us want to see the Government bond market go to pot. Least of all does the Federal Reserve System want to see that happen. It's just that frankly some of us don't know where we should go or what really is the objective.

H.M.Jr:

Well, you see, I hate to go over what's happened already, but, as I say, I believe that the steps which the Federal Reserve took in the first place are partly responsible for bringing about the kind of market that we had, and that secondly the devices that they used to keep that market orderly were ineffective. See?

Now certainly nobody took more care - we either had four or five meetings, I don't remember which, before we decided what to do for our March 15th financing. I don't - was it four or five?

Burgess:

I think four or five.

H.M.Jr:

It was four or five meetings. And nobody took more time or more trouble to try and decide. I announced publicly it was the most difficult, the most delicate decision we had to make. And through all that discussion and right up to the last minute when we made the price, nobody in the System ever once said to me, "Now in connection with this refunding, fundamental conditions are so and so, underlying conditions are so and so, that you better not get out a long-term bond because it's going to slide off five or six points." I mean there wasn't a single person. And certainly between our March 15th refunding, and within the last week or two, things couldn't happen so rapidly if there hadn't been, I believe, artificial measures taken which brought this about. I mean I don't think that this has been a natural move. I don't think it is a move which is justified.

And, to come to your question - what can you do? The only thing that I see that you could do is to use the devices that you have. Now just selling 10 million dollars' worth of bills

and buying 5 or 10 million dollars' worth of bonds just won't work. Now why won't it? Well, the answer is that it hasn't. I mean this swapping process which has been going on just won't do the trick, and I don't believe there is any excuse at this stage - and with commercial loans, the last I saw, what was it - since the 1st of January, they have only gone up 80 or 90 million dollars, the loans of banks. I mean there's no possible reason that I can see for the tightening of the money market through demands and loans and such a call on the banks that the rate should tighten the way it has.

I furthermore believe that this theory has been completely exploded that you can tighten short-term money rates and not have a direct effect on long-term money rates. Now, some of you people are committed to an easy money policy, and the thing just hasn't worked. I mean they thought they could go 5/8 to 1% for 9 months' bills and run it up to 3/4 and not have an effect on the long-term money market, and the answer is it just doesn't work. Now, we all learn by experience. I certainly learn. I don't hold myself up as a great theorist or anything of the sort, and I have no theories - money theories, never permitted myself the luxury of having any.

But the devices which have been used, as I say - I repeat again - I think they have aggravated the situation, and when it comes to correcting it, they haven't been effective.

Now, I think - we think if the responsibility was ours that we could correct it. But I think that the worst thing that could happen to the financial structure of this country would be if the Federal Reserve and the Treasury had an open break. I think it would be a most unfortunate and very, very serious thing, and I have said so repeatedly. I don't want it. I think over the last - since I have been Secretary, I have demonstrated I want to cooperate. I have cooperated, and up to now I have had no complaints. But nothing I think

would frighten people as much as if we had a split, and it's the last thing in the world I want.

But, in all seriousness I can't see what's taken me - and I say "me" advisedly - three years to build up over a most difficult period just slide away from under my feet in a period of two weeks to a month. Because the bond market can fall off a quarter or a half point a day, but it may go back one or two thirty-seconds - it may take six months. I've seen it happen again and again. I mean the thing can fall, but when it goes back up Now I said Thursday to the press publicly that all I want to see is an orderly market. I succeeded at the Farm Board - I used that as an illustration and said that when they tried to buy all the wheat in the world and hold it up, I knew it couldn't be done any more than you can buy all the Governments in the world and hold it up; nobody has got enough money. But you can correct the things which are making the thing happen. If it is wheat, you can grow less wheat; you have less wheat on the market.

And, as I say, I think there are certain things - now this swapping device hasn't worked. I don't know if you people could have been fortune tellers and seen that we were going to have all these strikes and the European troubles, and all that - whether you would have put into effect your excess reserve requirements. I don't know. But you have done it. And a person can sit back and say that so much money and so much this, and all that - it's going to work; and then the strikes come along and the banks feel they ought to be extra liquid and they want extra money. And I certainly didn't know that the banks had or would sell over \$300,000,000 since the last - 1st of July, and that they didn't take any of our \$2,000,000,000 increase in our debt. Those are all facts which are back of us.

And I have never as far as I know - I have never called up Burgess in three and a quarter

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years and ever asked him to put the bond market up.

Burgess: That's right.

H.M.Jr: And I never will.

But I think that certainly if it hadn't been for what the President said at 11:00 Friday, - certainly before 11:00 Friday we had the worst we ever had; Friday morning the thing struck the all-time low. And then he made the statement, after I had been with him an hour just beforehand. And the way things were going, I think it was perfectly possible to see our 2½s go below 90. And the thing that I am fearful of is that when these things begin to go down - I've been through this enough now - when the thing goes down it's the devil's time trying to stop it from falling. And you work and work and work for three years to bring the things up and then in a month you can see all your work undone.

Now, as I say, all I'd like to see is new measures taken to keep this thing orderly. Now if they don't And you people use the open market device and announce that you're going to do it. The last time you had your resolution I misunderstood. Taylor, without talking to me, he misunderstood it. We couldn't make out whether you had to go back and get additional authority before you used it, or what. It certainly wasn't - you haven't used it no matter what it did say. I think you've just got to do something different than what you have been doing. I'd just like to feel that you people are willing to practice what some of you have preached, that you want a decent, long-time money rate, and that you've got enough confidence in this market and the Government that you're willing to bring it about.

I don't know - you asked me a lot of questions, George. That's my philosophy.

Harrison:

Well, that's what I want very much. For instance, let's suppose for the moment that the

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open market committee pass a resolution authorizing the increase in the portfolio this coming week, and Burgess and I go back to New York. The New York Bank, being the bank that executes the policies, the first thing we want to know is, "Now what should we do this morning?" And suppose we found out the bond market is opening up. I would think out of all the experience that we have had with you, Mr. Secretary, that under those circumstances you would not expect us to go in and buy Government bonds.

H.M.Jr: The market is what?

Harrison: Opened up.

H.M.Jr: Oh, I thought you - I thought you meant it was 10:00.

Harrison: No, no, it's going up. It's opening, we'll say, above today's close.

H.M.Jr: Yes.

Harrison: And we have no reason to believe that there is any disorder in the market or that there is going to be any heavy liquidation, and so far as we see the bond market is going to rock along at that level, or perhaps gain a little. Because Burgess and I both feel that as best we can guess it, it looks as though the market is oversold now, and there ought to be some readjustment. Whether it will be a permanent one, no one is wise enough to say.

But let's suppose we have the authority and the market opens with bids higher than the closing today. First, should we or should we not buy? I'm not asking you (H.M.Jr.) this particular question, but I would have to find out from my committee whether we ought to buy bonds willy-nilly just because Government bonds have gone down too far in some people's minds already, or whether we ought to buy only as we have in the past on a scale down, but instead of making shifts make new purchases. I think that my committee would have to tell us that - tell the executive committee that,

and the executive committee would have to tell the New York Bank that. And I rather suspect that before the committee instructed us, they would appreciate what you think about it.

- H.M.Jr: If you don't mind, I don't think that is fair.
- Harrison: Well, it is only because I think, Mr. Secretary - You said that we failed in the past.
- H.M.Jr: Yes, but I said on account of the devices and - I mean I don't think it is up to me. I mean I made a very frank and I hope certainly, as far as the Treasury is concerned, a confidential statement here. I've kept my mouth shut; I haven't criticized publicly or tipped anybody off that I was dissatisfied. There's been no rumors out of the Treasury of any dissatisfaction which have appeared in any newspapers or letter writers or columnists, or anything else. No one has had anything out of the Treasury. There hasn't been a single inkling out of the Treasury of any dissatisfaction.
- McKee: Can I put that question of yours a little differently, George? Mr. Secretary, would you think that the present market needs a stimulant by action?
- H.M.Jr: If you don't mind, I'll put it a little bit different.
- McKee: All right.
- H.M.Jr: I think what this present market needs is that the Federal Reserve System show that it's got confidence in Government bonds. Now, that's what I think.
- McKee: And that, in your opinion, can only be done by action.
- H.M.Jr: Some kind of action different than what you have been doing during the last couple weeks, because that didn't have the results. I think that you should show that you have confidence in the Government bond market.

As a matter of fact, if I may just say just for a matter of history, if you people look through your minutes, when Governor Black was alive, I started to say in those days - I've begged and I've done it again and again - I said, "Won't you please either buy or sell 50 to 100 million dollars' worth of bonds over and above your portfolio when there is no emergency, so that when you do do it, it will be taken just as a natural thing?" And I started when Governor Black was alive and said, "Please do that when there is no excuse and no emergency, just to break that fixed thing, so that when the thing - when the day will come that you have to do it, it won't be on the front page." I mean I started back in Governor Black's time. I mean our minutes show at least three or four or five times that I done it. I mean I just want to say that so that this isn't something new that I am suggesting.

- Eccles: You said that to the executive committee and I have recorded it.
- H.M.Jr: But I have done it back in Governor Black's time.
- Eccles: That's correct.
- Broderick: Do you feel, Mr. Secretary, that if we had been buying bonds during the past two or three weeks instead of arranging for shifts, the decline would have been stopped?
- H.M.Jr: It's awful hard. My guess is that if you people had been buying, increasing your portfolio, the decline would have been orderly instead of a rout. That is my best belief. It is something - I can sit here and say that's what I believe.
- Broderick: Sure, I know.
- H.M.Jr: What would have happened - all I can say is, like anybody else, that the damn thing - what you did didn't work, that's all.
- The way I look at it is that a bank has 10 million dollars' worth of bonds. They sell it,

get some money, and buy 10 million dollars' worth of notes from you people, which you sell, and the thing just goes round and round and round.

- Broderick: Of course, the sellers and buyers were different classes of people at that time.
- H.M.Jr: No, I'm talking here recently. I mean recently.
- Broderick: I mean recently.
- H.M.Jr: Well, the selling is mostly from the banks.
- Burgess: Most of our sales have been from insurance companies.
- Broderick: Insurance companies - short notes.
- H.M.Jr: But I mean you provide the market for somebody to sell bonds to.
- Eccles: Of course, that left us in a position, too, that we didn't have bills at the time of maturity to help the Treasury out in its short-term financing.
- H.M.Jr: It's easy enough to sit here and say that if you had done so and so - I don't know. But looking over what's happened over the last few weeks, my best guess is that the device which we used wasn't effective.
- Eccles: Well, I can say this. I've said it to the full committee, said it to the Secretary, and I'll repeat it again. At the time the Treasury and the Federal Reserve Board agreed to cooperate with reference to the sterilization of gold, that was a move to get the open market committee in a position to operate with a flexible instrument of open market operations, and it was a move so that the Board could consider action with reference to increasing reserve requirements, a non-flexible instrument. I said at the time, and have repeated it since a good number of times, that at the time the Board acted with reference to increasing

reserve requirements, that had I felt that the open market committee would not move to meet a situation such as has developed, I would not have voted for increasing reserve requirements to the extent that we did increase them. And I feel that the action taken with reference to the sterilization was the proper action to give confidence, give assurance, and that the action taken by the Board with reference to increasing reserve requirements was the proper action if, however, the open market committee was willing to carry out an operation, give evidence to the public, evidence to the market, that they did have some confidence in the credit situation, that they were desirous of maintaining an orderly market and of stabilizing the capital market, and that they were willing, if they increased reserve requirements by \$750,000,000 to go into effect - that an offsetting operation through open market was thoroughly consistent and thoroughly justified to help to fit into this total picture and cushion it. I felt that way then and I feel that way now, and I feel there is no justification in the short-term market going where it did under the conditions as rapidly as it did. And when I heard where bills had sold, I was very much upset about it, and I have felt since last Monday that we should take action.

As you all know, the fact that the resolution said "emergency" and I felt that there was an emergency - there was a disagreement as to what an emergency was or as to what the full committee meant by an emergency, and as a result nothing was done. And I felt a crisis was developing and I so told the Secretary. I knew he felt the same way about it, and he said to me, "I was just wondering how long it would take you to come to that conclusion."

H.M.Jr:

That's right.

Eccles:

And I feel at this time that it is the responsibility of the Reserve System and the open

market committee to take action for the psychological effect, so that the country knows there is somebody - a public body which has a public interest - managing the situation; and that we should so announce, that we intend to take such action through open market operation in order to make for an orderly market, to stabilize the capital market, and possibly to help to cushion or to make possible an orderly readjustment to the reserve requirements.

And then, if the market has been oversold and it goes up of its own accord, certainly for us to go in and vigorously also place orders and put the thing up too fast and too far so that we invite selling again - that would possibly be a mistake. But I do feel that an assurance that we are going to take action - and then if we do take it and take it aggressively, and we still don't hold the market, then it seems to me that we have done what we can do. And I think in taking such action we could keep in very close touch with the Treasury, get their views of what the situation is, and be ready at all times because of our mutual interest in the situation to have any such suggestions as they may have to make if they care to make any. Now that is my position, and I have stated it today and I repeat it again tonight.

Broderick:

I was very glad to hear the Secretary speak about the absolute necessity for thorough cooperation on both sides, and he has made the same statement before at a meeting over at the Board at a time when a question came up about which there seemed to be a little difference of opinion. I think a break between the Secretary of the Treasury and the Board would have far-reaching results, and I think the Secretary and I am sure we want to avoid it as much as possible.

I feel this way. I feel that we can influence and we can check, but we might have difficulty in either controlling or stabilizing with the funds at our disposal. I think what we do will have some influence right along the line, but

this may be a far more - this movement may have a far more - go a good deal further than you have any idea, because there seems to be a very distinct feeling on the part of a number of very large investors and those interested in the investing market, that there is a buyers' strike in vogue, that there is a protest against the very low rates which they have been receiving on their funds. Now there are 20 factors which might be mentioned as having influence on the situation, and none of us can say positively that any one is the positive one, but they are all contributing factors.

I think the Secretary's remarks in regard to the fact that we have used certain devices that have not proved successful in checking this market - I think those points are well taken. Maybe we should have used some others. I am thoroughly in accord with what he says about having a fixed investment portfolio. I felt that way from the day I came on the Board.

But, Mr. Secretary, I might say this, that one reason why there was no change in that was because I think at least the majority of the Board felt that a change in that portfolio any time during the past year might have been an indication to the investing public that the Federal Reserve Board was losing a little faith in the position and the rate structure of the United States bond market; and they had an idea that if they did sell those bonds, it might affect you in the financing. Now, that was the answer made at the time and, as Mr. Eccles knows, the question of reducing our portfolio came up many times before the Board, but I think that is what actuated most of the Board members in not favoring the reduction of the portfolio.

H.M.Jr:

But here was the Secretary of the Treasury begging you to do it, and saying he was willing to take the risk of affecting the bond market.

- Broderick: Well, we all learn by experience.
- H.M.Jr: No, but, as I say, it's a useless - I mean I'm never one of these fellows to go over back ground other than to try to get a little experience from it to guide me in the future. That is the only way a fellow gets his experience, is through living and learning and the mistakes.
- Goldenweiser: Mr. Secretary, may I give one more reason why some people believe that the portfolio ought not to be changed?
- H.M.Jr: Now?
- Goldenweiser: No, not now. I mean in the past. I won't take but a minute.
- One reason was the very thing that you said, that then every change would be interpreted as a change of policy, and the psychological effect would be much stronger. And a good many believed that it was desirable, in view of the fact that the amount of ammunition the System had was limited, to strengthen it by having a move when the psychological effect as well as the actual effect would be felt. I mean if we stay at two billion four hundred thirty million so long, then when we do take action, it will have more influence. That was one reason for doing it that way.
- H.M.Jr: You wanted to keep it virtuous?
- Goldenweiser: No, we wanted to make it carry more weight. I'm not saying that that was the right view, but that was one of the views. Here we've got something, the power of which can be strengthened by doing something unusual, something which hasn't been done; and if there is an inflationary psychology developed, and the Federal Reserve should sell two or three hundred millions of securities, it would not only have the effect of two or three hundred millions, but it would have the added effect of being something that hasn't been done for a long time, and that definitely indicates a reversal of policy.

- Taylor: I think it is particularly unfortunate in view of all the existing circumstances that it wasn't used because there is greater psychological effect today.
- Goldenweiser: I thought you ought to know that it wasn't just the one reason that Mr. Broderick mentioned, nor was it stubbornness or unwillingness to do it. It was honest conviction that that was the way to make the instrument more effective.
- Eccles: I feel that to increase the portfolio, in view of the action with reference to reserve requirements, at which time it was stated that we could either increase or decrease it to meet the situation - that now to increase the portfolio would be desirable, and then I think it is easier to increase it first under the circumstances, and
- Harrison: And I agree with you on that.
- Eccles: and then you can' decrease it, and you haven't any fixed amount in mind as two billion four hundred thirty million. To first decrease it from that point would possibly have been interpreted as a complete reversal of policy.
- Harrison: I am still a little in the dark on one or two things. I don't mean to try to pin you down.
- H.M. Jr: Wait a minute. Let me see if I can't get a bell to get something to drink.
- Harrison: I wanted to ask a little bit by way of background so as to help, if we do anything, in interpreting what you think ought to be done, or what the Chairman thinks ought to be done.
- I think the Treasury has made a perfectly grand record over recent years in doing a difficult job of financing, and you, of course, are entitled to the principal credit for that, and the courage you have used, and the judgment you have used. I think that record has been due, of course, in part to developments of favorable

conditions, but also a darned astute handling of the situation. I'm giving you all the credit for it.

H.M.Jr: I'm getting worried. I'm getting worried.

Harrison: I'll ring a bell first.

H.M.Jr: I'm getting worried.

Harrison: I think one of the principal reasons for the success has been your very definite policy that you wanted to meet the market, and didn't want at any time to influence the market so as to give yourself more favorable or less favorable rates; and having determined what the market was, you gave it at that premium always to make the thing go. That, plus the fact that conditions have changed and we have easier and easier money. Bonds have gone up and up and up. But still your record of meeting the market has always been fair, and that is the thing - one of the things certainly that your administration of the Treasury will be noted for.

Now, whether it is because you have been so successful and bonds have gone up so long and so steadily that you are now having an unduly severe reaction, or whether it is because of price scares or strikes or wage increases, inflation or what not, you are going to have a permanent readjustment, I don't know.

H.M.Jr: Why don't you mention reserve requirements?

Harrison: All right - or reserve requirements.

Eccles: Budget.

Harrison: But one thing, I just wonder whether the Treasury wants now at this stage, when you have your first severe reaction, to do anything that will deliberately or unduly affect the price of bonds, for the first time since you have been handling it. That is the reason I asked you at the outset what you really had in mind and what your objective was, because I was quite sure that

you were going to tell me you didn't want us to drive the prices of bonds up. On the other hand, I agree with your statement the other day that no one can peg the bond market.

Therefore, I think that the only policy that we should have in the System, and the one that the Treasury would want us to have is to have an orderly operation of pegging the market, of putting bids in under the market, so as to prevent, as you call it, a rout. Now, whether the process of shifts would do that from now on or whether they have done it in the past may be a matter of difference of opinion - or whether they would be successful in accomplishing that in the future, I don't know. But I do think there is some question whether, even if we buy Government bonds and try to handle the market on the way down by additional purchases of Governments - what is to be the final interpretation of that act.

It is true that banks have been liquidating, but - and one reason I think that bonds have gone down as they have is that just at the time that the banks got out on account of reserve requirements the other investors whom we thought would come in have failed to make an appearance because of the price scare, and the other factors which have made them think that fixed income investments are not as valuable as they would be if we were not to have the price inflation.

But any way, if now you are going to use the process of supporting or maintaining an orderly market through additions to the portfolio, you've got to realize that there is the possibility that that real investor, the corporation investor and the trust investor, will figure out, "Well here, they're going to support the market. The Government has shown its hand now. They're going to support it." But you're doing it in a way that is going to increase excess reserves, which will be considered by some as a stimulus to inflation, which, if continued, will still make bonds less attractive than they would be if you didn't do it

that way.

Now, I don't know whether that will happen or it won't happen, but I do think it is a factor and a serious factor that ought to be considered before we choose that particular process as against another process of support.

And then if you decide that the chances are in favor of making the purchases, and you think that that will be successful, then the question is whether if you begin to drive bonds up through that process, psychological or otherwise - whether you stop or whether you run bonds up to a point where you will have the second inevitable reaction again. I mean if these bonds are down because of the fact the country is determined that interest yields should be down around this level and not some other level, then even if we should be successful in bringing these bonds up, somehow they would seek their level and again you would have a second reaction. I'm not saying that's going to happen, but I do think they are factors really worth considering when you come to choose the method that you're going to employ.

Now, I was disappointed to hear you say one thing, because it surprised me a little; that is, that the process that we used had not been successful, and that during the period we were using the method of shifts, we hadn't handled things right in the Government bond market. Now, we've kept pretty closely in touch with the Treasury, and I frankly thought that we had handled those shifts about as well as we could handle them under all the circumstances, considering the volume of sales, and I have thought you felt that we had handled it as well as it could be handled. The other day I asked you if you had any other suggestions to make, and you said that you would make them if you had them to make

- H.M.Jr: Make them to the executive committee. That's what I'm doing now.
- Harrison: But I never thought
- H.M.Jr: That's what I said.
- Harrison: that you'd be critical of the way that we handled the market in the matter of making shifts. I didn't know that that
- Eccles: Well, George, the Secretary told us three weeks ago when we were over there, if you recall, that he felt making shifts would be ineffective, and that he felt we should increase the portfolio.
- Haas: Mr. Governor (Harrison), isn't it the conventional way of central banks to maintain so-called sound credit conditions by doing something which affects the underlying credit situation? It's not just the buying of bonds. It's the effect it has on excess reserves. And it is only through that operation that effective central bank operations are carried on, which have any material effect on the underlying credit situation. In other words, you can't have a fund big enough to just buy bonds - pegging wheat like the Farm Board tried to do. It is the underlying change in excess reserves which really has the effect. If buyers are going on a strike - why certainly buyers would be on strike if they thought the direction was down rather than up.
- Eccles: The institutional buyers are wanting higher interest rates. Of course, as I recall - I think you do, too - in 1932, 1933, and 1934, when they were getting rates of $3\frac{1}{2}\%$ or $3\frac{1}{4}\%$, 3% , they still wanted higher interest rates. I remember when Treasury was considering some financing on the - I think it was either the 2-3/4s or 2-7/8s - where it was felt that - it was reported that the big insurance companies were not satisfied with that kind of a rate, that they would at that time be willing to take a 3% bond. Of course, it's just a

perfectly natural thing, the desire to get as large a rate as the lender can possibly get.

Now certainly the supply of funds in relationship to the demand has something to do with rates as well as the general price level. When we have greatly reduced the supply, abundant as the supply still is, it still would temporarily cause a hope or desire or speculation for higher rates, and in bringing about a drastic adjustment of that sort, certainly some tempering or offsetting factor seems to me to be necessary and desirable. What the final long-term rate may be over a period of years

- H.M.Jr: Excuse me, has everybody got a drink? Anybody not got one? All right, the country is safe.
- Burgess: To the Government bond market.
- H.M.Jr: Drink it down.
- Gaston: Drink it up.
- Broderick: Cheer it up, Mr. Secretary.
- Eccles: would depend upon the general price level as finally attained. The general price level, although it has risen - its average is substantially lower than in the '20s. The available supply of funds for investment is certainly huge. There is no place else in the world they could go with their funds. In fact, most of the world want to bring their funds here. And I can't see at this time, at the present price level, and with our getting very much closer to a balanced budget, a justification for such a rapid downward fall in securities, and for the present confusion to develop in the capital market, except for the reason that there has been, of course, every effort made to bring this about by those interests who have funds waiting for investment, consciously or unconsciously, and because they feel that nothing is going to be done about it. They

naturally want to get in on as high a rate as possible.

Harrison:

Well, we've never proved yet whether a buying operation on our part helps the bond market or hurts it. I'm not at all satisfied which it really does. You can argue both ways. You can say that if we are in buying that gives evidence to the country that we have got confidence. On the other hand, it deters other investors on the ground that the thing is artificially supported, and they don't know when the Government is going to get out.

Haas:

The significance is that you increase excess reserves and change the underlying credit situation.

H.M.Jr:

You people just don't want to admit that, but we think that you monkeyed with the carburetor and you got the mixture too thin. We might as well call a spade a spade.

Broderick:

But you will admit there is room for differences of opinion on that.

H.M.Jr:

Oh, plenty. I mean I am

Harrison:

Gosh, I remember the time when we not only had no excess reserves, but when we considered that we had easy money and an easy credit situation when the New York City banks were in debt not more than 50 millions of dollars. There was a time when a man who ran a bank in New York - if he was \$10,000,000 over, he would be fired.

Goldenweiser:

Mr. Harrison, you didn't have a $2\frac{1}{2}\%$ interest rate in the market then.

Harrison:

And we haven't yet proved we can keep it.

H.M.Jr:

But nobody has heard me pound the table and say I want a $2\frac{1}{2}\%$ rate, or I want this, or I'm asking you to force the thing up so I can go back and sell another 20-year bond at $2\frac{1}{2}\%$. I'm not asking for that. But, I mean - we people in the Treasury feel that you have

changed the underlying situation.'

Harrison:

Not the open market committee.

Eccles:

We have changed it. We admit that we have changed the underlying situation because, of course, that was an artificial pressure and that - I admit at the same time that if we ever did it, we had to do it now, but that we should also offset that underlying situation by open market operation.

H.M.Jr:

Well, there's no argument about that.

Eccles:

Well, all right. I mean that

H.M.Jr:

I mean no argument as far as you (Eccles) and the Treasury.

Broderick:

I think quite a few of us made a mistake on the excess reserves, but the mistake was we didn't move soon enough.

H.M.Jr:

Well, I can't

Broderick:

But those things can't be argued out. It's just simply differences of opinion.

H.M.Jr:

That's all water over the dam.

McKee:

Mr. Secretary, my story doesn't sound good on this table, but you're the first fellow that I know has agreed with me since they started talking about excess reserves.

H.M.Jr:

Good.

Broderick:

We'll have to admit that.

Eccles:

But, John, you didn't want any increase at any time, but you wanted us to sell off our portfolio.

McKee:

I wanted you to try that to find out what it would do. I couldn't get a second to my motion.

- Sinclair: Mr. Secretary, may I just ask a question to remove a cobweb from my mind? Some of the experts here can answer. Does part of this request to act aggressively, bravely, increase the portfolio, and make an announcement to that effect - is that calculated to better the psychology of those who sell and possibly those who buy? In doing that at this particular time, are we apt to accelerate or accentuate the selling wave on the part of the banks? I'd like to see some of the points of view of the people here on that point. In other words, if some of the banks are doubtful now as to whether they are willing to buy again or sell what they have remaining, if an announcement is made that the System is increasing its account and is prepared to act aggressively, will that incline them to sell more than they might otherwise do at this particular time?
- H.M.Jr: Don't ask me that. Do you mind asking somebody else?
- Sinclair: Some of these experts around here might want to answer that.
- Eccles: Well, I'm not an expert, but I have an opinion on it.
- Sinclair: I realize what your opinion is. Your opinion is the opposite. Taylor, what do you think?
- Taylor: I don't know.
- Sinclair: That's the risk we ought to take?
- Taylor: (Nods yes) That's the risk we ought to take.
- Sinclair: Well, none of us know.
- Taylor: You just can't tell how the market is going to interpret that.
- Harrison: That's the trouble that I see.
- Taylor: But I think it is worth trying, a risk that you have to take - a risk that we, the Government,

trying to finance itself, have to take.

H.M.Jr:

We as partners - I use the word "partners" - we're in this thing just as deep as they are.

Harrison:

That's the real problem. I'm glad you mentioned that because, Mr. Secretary, I still don't see - supposing that the open market committee votes to buy Governments; I don't believe that you would want us or should want us, in view of this past glorious record that I have just recited, to go ahead buying Governments if the result of it is to run up these bonds, say, as rapidly as they have gone down. In other words, you would then, for the first time, have been a partner in the process of raising the bond market. We have never done it except to keep it from falling off.

H.M.Jr:

Nobody's asking you to do that.

Harrison:

Well, I'll tell you, if you'll listen to me just

H.M.Jr:

You mean what is going to happen now if you announce that you are going to increase your portfolio? You going to prophesy what's going to happen?

Harrison:

Indeed, I'm not. What I meant - this morning when I got here and we were presented with a document which represented the combined opinion of some representatives of the Treasury and some representatives of the Reserve Board

Eccles:

Well, the only representatives of the Board were Dr. Goldenweiser and Mr. Thurston, as I explained to you.

Harrison:

And when I asked what it meant I was told that it meant if we accepted the plan that on Monday morning we would have to buy Government securities no matter what the Government bond market was doing, and no matter what other conditions were, and that we had to agree to that before 1:00.

Eccles: No, George, let me tell you this

H.M.Jr: That's not so; that's not so.

McKee: I didn't understand it that way. I understood we would agree and announce a policy before Monday morning.

Harrison: It says, "Beginning Monday morning" we'd do so and so.

Eccles: He's right, and I said so far as the amount is concerned, the statement will simply say that we would buy Government bonds.

Harrison: Beginning Monday morning.

Taylor: Or Government securities.

Eccles: But I said this, and the Secretary can correct me if this isn't correct,

H.M.Jr: Who was here last night?

Eccles: Well, I've got the statement.

Harrison: All I'm worrying about is that when I asked, "Does that mean that we have to buy Government bonds?" you said, "Yes."

Eccles: I said, "Yes, if it is only 500 thousand or a million dollars' worth." That's all I said.

Harrison: I said, "That's foolish."

Taylor: We said five bonds last night.

Eccles: I thought you said 500?

Taylor: No, we said five.

Eccles: I said that the Treasury

H.M.Jr: We said one bond.

Eccles: I said that the Treasury was more anxious for the psychological effect of a statement

of definite policy rather than that they were - and they weren't attempting in any way to commit us to any amount that we were to buy. I put in the statement there "if necessary", see, and that that was too indefinite, it was too weak; that it would hurt rather than help, in the opinion of those that met after a discussion. We felt that "if necessary" didn't mean anything because we had another resolution which said "if an emergency develops" and we couldn't agree what that meant. Therefore, the whole question would be what is "if necessary" just as it has been, what is "an emergency." Now is that correct?

- Harrison: All I knew was that I had to buy bonds Monday morning.
- H.M.Jr.: Well, we argued this...
- Harrison: Whatever happened.
- H.M.Jr.: that if an emergency happened and you people didn't think it was an emergency - and we felt that "if necessary" wouldn't be any more fruitful than "if an emergency." Eccles said "If you put that in, it means we've got to. But don't you make a liar out of me; you can buy one bond."
- Eccles: He said he was interested in the psychology of a definite statement.
- H.M.Jr.: Did we say one or five?
- Taylor: I said five and you cut me down to one.
- H.M.Jr.: You said five and I said one.
- Eccles: Whether it's one bond or five hundred thousand - I mean in our office it doesn't make any difference.
- H.M.Jr.: The point of the argument was not that you had to buy but the point that you meant business.
- McKee: I don't know what George's interpretation was but mine was that the fact that the program

was to start Monday morning and it was to be announced in advance...

- Harrison: And that we had to begin buying Monday morning no matter whether the Government market was up or down or what the conditions were, willy-nilly. I said I thought it was a dreadful thing for the Treasury to ask the Federal Reserve Open Market Committee to agree to do it blind no matter what conditions were.
- Taylor: I still get back to the point that that reads "securities." Bills would do just as well as far as the psychology went.
- Goldenweiser: Do you mean bankers' bills?
- Taylor: No, I mean Treasury bills.
- Goldenweiser: Because it says United States securities.
- H.M. Jr.: The point that I was arguing about - they had in there "if necessary" and we went back to the other statement of "if an emergency." Now we think you had an emergency and didn't do any business, so if we were going to be partners in this thing and we were going to put up four hundred million dollars worth of gold, we didn't want to sit around and just do nothing.
- Gaston: This speaks of a course of action effective as of April 5. Then when it gets down to the second paragraph, it says "The Federal Reserve System will increase its holdings of United States Government securities through open market operations." It doesn't say anything about their starting to buy Monday morning.
- Eccles: Well, that was the interpretation.
- Gaston: "This course of action is effective Monday."
- Eccles: Well, that's exactly as I understood it.
- Goldenweiser: That's what it means, Mr. Chairman.
- Eccles: Well, what it means or doesn't mean - at least that's what I interpreted it to mean and that's what I interpreted the result of the conference to be, that the idea was to give the impression

that we did mean action and that if we only bought, as you say, one bond or five bonds, at least that would not make a liar out of us; but that we did mean action and that if we stated that "effective Monday morning" why that is what we would do. If we bought one bond, if that was all that was necessary, fine but it did have a psychological effect.

- Harrison: Well, I didn't bring this up to blame anybody for anything. My object is....
- Eccles: Well, what did you bring it up for?
- Harrison: was to find out what are we going to do if we've got the power.
- H.M.Jr.: Let's put it the way - I mean I'm getting a little fed-up. What would you do for Monday? You give us the policy now; you write out a policy.
- Harrison: I think that whether through shift or purchases, depending upon what the decision is....
- H.M.Jr.: No, not the decision....
- Eccles: You're making it alone.
- H.M.Jr.: You're making it. I've made one; now you make one. I mean you're pulling ours apart. Now if you don't mind, you be constructive.
- Harrison: No, before pulling yours apart, I've been trying to find out what it is.
- H.M.Jr.: All right. We've had this for an hour and a quarter. Now I ask you as a member - you're a member of the committee - now I ask you what do you recommend? What do you recommend as a positive action or what do you recommend that the Federal Reserve Open Market Committee should do beginning Monday?
- Harrison: Well, I think first I would not make any statement this week-end. I say that largely because of the fact that it so happens that practically every dip in the bond market has

resulted from some statement over the past three weeks.

- Eccles: There was a dip when there weren't any statements too.
- Harrison: Well, you get the chart and you'll find that it's pretty near true. Yesterday and today the market behaved pretty well.
- H.M.Jr.: Due to the President's statement.
- Eccles: There is a statement where it didn't dip.
- H.M.Jr.: Due to the President's statement.
- Harrison: It behaved pretty well.
- H.M.Jr.: But exactly to the minute due to the President's statement - to the second.
- Harrison: That doesn't negative what I said.
- H.M.Jr.: You said every statement made it dip.
- Harrison: No, I didn't. I said every time there was a dip, it was following a statement that was made. However, I think I wouldn't make a statement about it now, because you don't know whether this over-sold condition that Burgess reports about is going to level the bond market out or not. I think it would be infinitely better if we could have the bond market level out and behave itself in an orderly way without any action, than it would be to take action because then you have unavoidably, if you will, an element of artificiality injected into the situation which does discourage certain classes of investors. So that if you are going to have it leveled out with intervention or without it, I think it is much better to have it leveled out without it. And there is some evidence today that maybe it is leveling out. I don't know and I can't guarantee whether it is just temporary or whether it is permanent. But until I've found out that it was not leveled out, I don't think I'd do anything new.
- H.M.Jr.: And you go back to your old statement, that you are going to wait until there is an emergency.

- Harrison: I think I would.
- H.M.Jr.: Well, that's what I wanted to find out.
- Eccles: Well, I wouldn't.
- Harrison: On the other hand if you do it now - if you do it now, when there isn't an emergency or when it is leveled out, what is your purpose? Is it to run it up further, and if so, when are you going to stop?
- H.M.Jr.: Well, if I know anything about public relations, the time that I would pray to make a statement like this would be when the bond market was not going up. If I know anything about it, I'd just go down on my knees and pray that I have one day that the bond market not go up and then I'd make a statement. That's the day I'd wait for.
- McKee: George, would you approve of action by the Open Market Committee without a statement?
- Harrison: Meaning buying?
- McKee: To increase the portfolio.
- Harrison: Well, I don't think I'd make a statement even though you were going to buy bonds next week. If things get bad or if this better situation does not continue - supposing you determine tonight that you will go in and buy bonds heavily and drastically if the liquidation revives, and it seems not to have for the last two days - but supposing the determination is that the minute this liquidation seems to be setting in, you're going to buy bonds. I don't think - if that were your policy, I don't think I'd make a statement in advance that you are going to buy bonds because you don't know that the liquidation would revive; therefore, you don't know that you're going to buy bonds.
- McKee: Yes, but on the strength of that how could you protect the little fellow against the big fellow in such a procedure?

- Harrison: You mean.....
- McKee: Do you mean to tell me that that wouldn't leak out and benefit the big fellow - if the authority was granted without the announcement for everybody's protection? How can you be sure that the little fellow is protected?
- Harrison: Well, then, I think I'd make a statement of fact that you are going to make purchases of governments if there is a liquidation of the bond market that justifies governmental or Federal Reserve support. I mean that's all right if you want to cover equality of treatment on the part of different investors. The thing that I want to avoid is making a statement which commits you in advance to a policy of making purchases even though you might not need to or might not want to.
- Haas: Well, I've never thought of the Open Market operations as support for the Government bond market. I always thought of it as a device to increase excess reserves.
- Harrison: Well, maybe so, but I say that just as a short cut here for convenience - I mean in expression.
- H.M.Jr.: Of course, what you need - just talking for the Treasury, what you need is more reserves. I mean you can't get me away from this thing that you have cut this carbureter too thin.
- Eccles: I think you're right.
- McKee: In that connection may I ask a question?
- Harrison: You (H.M.Jr.) are talking of the Federal Reserve Board now, aren't you?
- H.M.Jr.: Well, I don't know that any other rose by any other name smells so sweet.
- McKee: This probably should be directed to Mr. Taylor. Here you've got a situation of a disturbed market and a disturbed bond-holder public that is faced with a dead-line date of May 1 when

something is to happen. Whether there's going to be any distressed selling between now and then in order to meet that circumstance, no one can tell, at least as to its volume. But consider for a moment the buyer who has been standing on the sidelines waiting for the opportunity - or his opinion as to what is the bottom of this market. Can you visualize any one of us divorced from this picture stepping in and buying a big block of bonds - we want it for a continuous investment - when we knew there was such a date standing on the horizon? Now you (Taylor) as a bond man - now I'd just like to have your opinion.

Taylor: Well, I think even without that, why as long as the traffic is one way which it has been, I'd stay out. I mean there's no percentage in stepping in.

Eccles: There's nobody taking charge of the market.

Taylor: I mean I would certainly wait until the psychology changed.

McKee: Well, then, can we expect much out of this Government bond market as long as that threat is hanging over the market before May 1st?

Taylor: Well, my opinion is that you would have to change the psychology. This may be the thing that will do it. But you can buy, God knows how many, billion dollars worth of bonds without taking some positive action which means a change in the psychology.

Eccles: That's right.

I'd like to ask Dr. Burgess - he's pretty close to that market from day to day and he knows the psychology of it, and after all, he is both the manager through the New York Reserve Bank for the Treasury's account and investment of their funds and he is also the manager for the Open Market Committee. I'd like to ask him whether he thinks that in the present market situation an assurance to the country of - on the part of the Open Market Committee that they are prepared to

increase their portfolio for the purpose of stabilizing the capital market, providing an orderly market, and to enable the banks to meet the adjustments to the increase in reserves - whether it would be favorable or unfavorable. I mean his opinion in this present situation.

Burgess: Well, that is, of course, impossible to judge fully.

Eccles: No, but you have an opinion on it.

Burgess: I think as a matter of fact it would be immediately plus. That is, I think the market would begin to stabilize immediately. I think that a good many investors and banks would be alarmed by it because they have said that the System was never going to be able to get out of its governments, that if the deficit financing kept on, the Federal Reserve System would be called upon to support the Treasury and so on, and a lot of investors would say, "Our fears are now realized." So that some investors would hold out of the market.

But I think on the other hand the immediate market people, the dealers and the people closer to the market, would say, "This market is now going to be pegged and we'll play with it." I think they wouldn't sell - the selling would tend to dry out.

But whether the longer term investors would be given confidence in it, I just don't know. I think it would stop the immediate selling.

Harrison: But the longer term investors ought to get discouraged.

Burgess: I think, of course, the budget is enormously important on it.

Harrison: I think something on the budget would do more good than anything else right now.

Burgess:

I think on that psychology of the market, Mr. Secretary, that we were a bit slow to recognize - and I take the blame just as much as anybody and perhaps more so because I should have been closer to the market - that what we have had here is not one of the ordinary fluctuations of the market that you and I have been through in '34 and '35. Those were dips in a market that was moving upward over a period. Now I think what you have had here is a much more fundamental change than that. I think you've got here the end of a bull market in bonds. Now that bull market has been going on for - really, since the middle of 1932, with changes, and the market has gone up to levels never before reached in this country. And it rested on two things. It rested on business depression so the people knew that the money wasn't employable. And it rested on the other hand on huge excess funds. Now both of those things have changed. In the past three months, by the action that you took and that the Board took very wisely in dealing with excess reserves, the money supply condition has been changed. Now unfortunately that has happened to occur simultaneously with a total change in public psychology as to item No. 1 - that is, the notion about business conditions, about prices. It just happened that there has been an enormous burst of interest and the public mind has been impressed with the fact that this business cycle has moved up nearly to normal, that prices are booming ahead, and that is inflation psychology.

In my mind that means the passing of a definite mile-stone in this business movement. It means that people are no longer thinking in depression terms, which means high bond prices. They are thinking in terms of business prosperity which means in the long run lower bond prices. And I think that acute investors and banks generally are saying that the bond market has reached its top and is on the way down. It's on the way down - it may take some years, may take some months, nobody knows. They say, "The top is passed."

Now like all bull markets there are a lot of speculators in this thing. A lot of people bought and didn't expect to hold. So I think you are going through a major readjustment which is inevitable.

Now I think it's been overdone. I think the readjustment has been somewhat overdone. But I do think it is important to recognize the character of that thing and think of it in terms of the big business movement that we are facing, and of the policies that the Reserve System and the Treasury need to follow in respect to those major movements, which are very much more important than the level of bond prices, whether it's at 2 3/4 or 3 or whatever it is. And it seems to me perhaps that our discussion this evening hasn't - I'm supposed to talk about the bond market but I should like to see a little more discussion about whether are we going as an administration and as a reserve system as to the big items of policy that face us. Now I think there is a crisis but I don't think it is a crisis in the bond market. I don't think that is the biggest crisis. I think the real crisis is the one the President talked about yesterday, that Marriner Eccles has talked about, that Wallace has talked about and Roper. It is this question of prices and inflation and so forth. And it seems to me tremendously important what we do about this bond market shouldn't be contrary to what we might want to do about the real crisis.

- Eccles: But the President has given - oh, pardon me.
- Burgess: Go ahead.
- Eccles: Some assurance with reference to the determination of the administration to meet that problem, and did say something with reference to the budget yesterday - not very much but at least something with reference to this big picture.
- Burgess: I think that is very helpful.

- Eccles: Of course, he can - which he no doubt will at some time later - say something more about the picture which I recognize is important and will be very, very effective. And in the meantime I think this market has been permitted to become disorderly, and that any adjustment of rates to increasing prices and increasing further recovery and demand for money may come about, but it certainly should come about in a more orderly manner, in a manner that will not almost destroy the capital market and create a fear and consternation throughout the country at this particular time. And I think that if the Federal Reserve System - it is their duty if they ever had a duty to play their part in tending at this time to give some confidence and to help to maintain stability; and if they increase reserve requirements, which they did, that they should not hesitate when they take the drastic action that they did to at least tend to cushion it or to offset a part of it - that you shouldn't be able to expect a banking system to absorb such an adjustment without doing anything about it.
- Taylor: Isn't it also so, Merriner, that as far as we know, why the underlying policy of this Government still is a cheap-money policy?
- Eccles: That's right.
- Taylor: So that if you have started a bear market in bonds, it is up to us to take some very important action to show that that isn't satisfactory to us - in other words, that we are fundamentally a cheap-money country.
- Harrison: But I think it is perfectly appropriate in connection with that to argue the possible effects of one course or another.
- Taylor: That's right.
- Harrison: Without putting ourselves in the category of enemies just because we don't appear to agree on the precise technique and procedure at the outset. And, having established a technique, I think a little bit better understanding of

where we want to go is necessary than we have yet got. That's the one thing that worries me.

Eccles:

My golly, George, if you haven't got it now, I don't know how it is possible in the English language. It isn't possible for me to express this any - well, I haven't anything more to say.

Harrison:

You haven't answered the question yet whether you want us to go in Monday to buy and run bonds up.

Eccles:

Oh, yes I have. I stated that I think for psychological purposes we should let the country know what we are prepared to do and then I think that if the bond market on Monday is going up of its own accord, certainly there is no occasion for us to go in to run it up further. But if on the other hand the market is weak and there are a good many sellers, I think we should vigorously act now. Whether we can stop it from going down is another thing. I don't know. But certainly I do feel that we should act even if it is to the extent of buying bills. We should let it be known that we are increasing reserves, that we are tending to make possible the necessary cushions to bring about a fundamental adjustment and, depending upon how the bond market acts, we should continue to do everything we can to maintain a cheap-money policy and an orderly market. I mean cheap-money policy in relationship to the total funds available - I mean cheap in relationship to the existing price level. And certainly an adjustment from where we were to where we are in a short period of time that has transpired is not an orderly market. It's an adjustment that I don't think any other country has gone through in such a rapid disorderly period. Certainly it hasn't happened in England and I know of no other country that it has happened in.

Now if over a period of two or three years as prices increase and as other conditions develop, the market gradually works to higher levels that, it seems to me, may be another thing. And yet if the Treasury - I mean if the Government

gets what I expect it will get, a balanced budget, and with recovery it will be able to start retiring its debt and offsetting the expansion of private credit, so that Government bonds instead of being more in volume will be less in volume, that there will develop some scarcity value in that particular security which is in an entirely different category and an entirely different class than any other security.

Haas:

Another element in this whole situation is this: That at any time it is humanly impossible to forecast the effect of any measure that is taken. Now central banks have several devices they can use and as you classify them, you say that from an ideal standpoint it would be better if all these devices would be so-called flexible ones. The advantage of a flexible device is that you can take action, try out your situation. If it doesn't work, it doesn't mean it is like going off the gold standard; once you're off, you're off. You can, without much difficulty, come back and ease your situation back and forth. And the Open Market operation is one of the flexible devices.

Eccles:

It is the only one we have.

Haas:

I always contemplated that that was the way it would be used, that you would never be positive but you would have the assurance that you could operate both ways on it without any difficulty.

Burgess:

Of course, it is too bad that we have to start operating on the upside just at a time when the whole country has its eye focused on this question of inflation. And these people that have watched the reserve bank portfolio and talked about our frozen Governments, if we move up right now, are going to say that inflation is going to come, that we have chucked aside that instrument, that we are going to finance the Government's deficit. There is a tremendous kick on that which I don't - I'm not saying that we shouldn't do it, I'm just saying that as part of the discussion.

- Harrison: That is part of the risk that you run in doing it and a very substantial risk.
- Eccles: It depends on your statement.
- Bell: But you did announce at the time that you announced the increases in reserve requirements that you would use the open market to adjust the situation.
- Eccles: The Board....
- McKee: The Board of Governors wouldn't have moved if it hadn't been for the influence of New York.
- H.M.Jr.: Well, Marriner, if you don't mind, this is the third night running that I have been doing this....
- Eccles: Me too.
- H.M.Jr.: and I don't see that we are getting anywhere. I don't see if I stay here for another five hours - I've answered every question to the best of my ability. I haven't tried to evade any questions. You people know how we feel.
- Broderick: I might ask this, Mr. Secretary, should the Board use this so-called flexible instrument and be prepared to increase its portfolio, would the Treasury take any action with reference to sterilized gold at this time?
- H.M.Jr.: At this time?
- Broderick: Yes.
- H.M.Jr.: No.
- Broderick: You will rely upon whatever action we take to see how that works first.
- H.M.Jr.: Absolutely, absolutely. I'm glad you asked that because I thought that was understood.

Williams:

I've sat and listened to the discussion. I haven't heard any of your side except - and I realize that it is a very difficult situation that we are in. But I want to make it clear that all day today and every time in the last three weeks when I have had an opportunity to talk about this, I have counseled against taking any action whatsoever and I think my reason for that has partly been stated by Randolph. I think that we meant when we said that we were prepared to offset any adverse effects of raising the reserve requirements - that we had in mind the general economic situation of the country; that we were still thinking that we had come out of the great emergency and there had been a great deal of thought back and forth over a period of perhaps two years as to whether this action might not be too drastic, whether we might not get a setback as to the recovery, and we were therefore, as I understood it, all prepared to offset the action by buying in the open market, provided we felt that recovery was in danger of a real setback.

Now I have contemplated that a change in the Government bond market, even though I recognize that it has been rapid - that a change of this magnitude would be regarded as an emergency in that sense. I mean I'm stating just my personal point of view. And I have listened for so long - so many times to the view that on the first sign of bad weather, the Administration would take a hands-off attitude toward all measures of monetary control and monetary restraint. I have felt that that wasn't so.

H.M., Jr.:

That we wouldn't do what?

Williams:

That at this first sign of a down turn in the bond market, we would find, despite all our powers of control under all recent legislation - that we would find ourselves in effect impotent to do anything because of a feeling that we must protect the bond market. I've heard bankers laugh about control. They say, "You've got us into this bond market, and you're going to take care of us." I've heard economists who

were naturally inclined to be critical...

H.M. Jr.:

Who?

Williams:

Economists.

H.M. Jr.:

I thought you said communists.

Burgess:

Much the same thing, Mr. Secretary.

Williams:

.... who have been inclined to be critical of Treasury policy and Federal Reserve policy, Administration policy generally - I mean I've had to defend the actions that have been taken so long on this ground. They have said, "You just wait and see - at the first sign of trouble in the bond market, we're all under cover." Now I don't say that if this movement should go on - I confess it has gone faster and farther than I supposed it would - I don't say that if it should go on there wouldn't be occasion to step in, but I very much hoped that you would have the patience and fortitude to live with it awhile and see if it can't find its own bottom. I very much agree with some sentiments that have been expressed here tonight; that people feel the situation is still artificial, you see, and that if we take any kind of action at this time, it will inject another element of artificiality and they won't know what this bond market is really resting on. And I feel convinced in my own mind without pretending to be any kind of a prophet at all that there are ample funds that are watching this market and they are going to invest in it when they think it is settled down. And I am fearful that if you take action, the bond market might go up and people would feel, "Well, here it is artificial again."

Now we must remember that these are low levels after all. As we said, bonds went to lower yields than ever before in our history and I don't believe that anybody is prepared to hold the bond market indefinitely at this level. But if you go in now in order to protect and support your market - and that is the interpretation that will be given, I am afraid -

if you do that, then people will say, "This is an artificial market."

H.M.Jr.: May I answer you?

Williams: Yes.

H.M.Jr.: I would agree with you one hundred per cent before you took this action on reserve requirements, because then I would say that nothing has happened except the natural demand for money has gradually increased. I've said again and again that I only hope and pray I can get through my refunding before business recovery is far enough along to push up interest rates on account of its scarcity of money through natural demands of business. And I said, "I only hope that I can get through my refunding before that happens, because I know that that thing will come."

And at different times when I have talked with different people they have cautioned me not to - the reason I didn't accede to the unanimous request of the insurance companies that I sell a thirty-year three per cent bond was for one reason that I saw the day would come when the business requirements of this country would make a thirty-year three per cent be sick and difficult to handle and I used the expression that I had been casting my fly so far that I couldn't control it. But every insurance company begged me to sell a thirty-year three and I refused to do it.

Now I would agree with you entirely if I didn't believe that it was artificial means which had brought this down, and all I am suggesting is that we go part way to correct an artificial thing which I think that you have done. Now I don't ask you to agree with me.

Williams: Well, now, Mr. Secretary....

H.M.Jr.: See? I think - I don't say solely but I think through artificial means.... Who was it that did this thing? People seem to be touchy around here. Was it the Board?

- Burgess: Well, we all were in agreement.
- Eccles: All but one, McKee.
- H.M.Jr.: But wait a minute. As to what you are talking about and all that, and as to the devices we have had, all these devices that the President had, all these devices that Congress gave him. He never used any of them when we were desperate; he never used any of it. We went without using the half dozen devices when things looked bad. After his Green Bay speech, I never called anybody up and said, "I need a shot in the arm." At different times when we went through critical periods, I never called for narcotics or dope.
- Williams: I've pointed that out time and time again.
- H.M.Jr.: All right. Now I'm not calling for it now and I'm not urging it now, if it wasn't that I and the Treasury believe that this drop of five or six points in the market was brought about through artificial means. Now all we are asking is not that we use some inflationary device but that through your open market operations you go part way towards correcting this thing.
- Williams: If the circumstances were different, I think I would agree but as it is today, we have all this talk about symptoms of inflation and I think some of it is real and we are all concerned about it, I feel. And what we want is a lasting recovery. Personally, I'd like to see it slowed up a little bit because I think it's running into bottlenecks here and there. But what we want is a lasting recovery, and in order to get that I think the community wants a feeling of normality - "you see, there's no artificial stimulation of any kind."
- H.M.Jr.: But you did have such a thing, professor - artificial constriction?
- Eccles: But that wasn't artificial. That's the point I want to....
- H.M.Jr.: No, sure it was artificial.

- Eccles: No, the excess reserves created were artificial. They were created as a result of gold imports which were the artificial thing.
- Haas: It's all artificial.
- H.M.Jr.: Well, let's use the word "arbitrary" instead of "artificial."
- Williams: I think myself it was a belated removal of a very powerful artificial stimulant.
- But if we get perspective on this problem, what do we realize? Today we have the largest money supply in the history of the country, right now, see?
- H.M.Jr.: Yes, but unfortunately....
- Williams: After these excess reserves have been removed to the extent they will be on May 1st, we still have a half billion of excess reserves, which in any previous period of history we would have regarded as highly abnormal.
- H.M.Jr.: All true, if you don't mind my saying so, according to past book experience, see? All true, theoretically - theoretically so. But people tell me that on account of the strike situation and everything else, people want an additional liquidity, which isn't in any textbook and I - all I can be is a realistic person; and I may be entirely wrong, but I simply feel that somebody at some time has to show that they have some confidence in a two and a half bond at 96.
- Williams: Mr. Secretary, if I was Secretary of the Treasury, I would say, "I have entire confidence in the bond market and I don't intend to do anything about it." That is how I'm going to explain my position.
- H.M.Jr.: And I'd be laughed out of my job.
- Williams: I don't think so.
- H.M.Jr.: I'd be laughed out of my job. I have demonstrated that I have been able to go through the most difficult times this country has

ever seen. I have weathered the storm. I have no immediate financial problems which are pressing me. There is nothing selfish about it from the Treasury standpoint. My refunding is all behind. I could sit here and say, "It makes very little difference to the Government whether we pay three quarters of one per cent for the nine months or whether we get it for a third of one per cent. It isn't important." I mean there is nothing driving - I haven't got eight hundred million dollars worth of liberty loan or anything else. But we are not far along enough in recovery that we can see this thing - the beginning of a downward spiral. And I've seen it - I've seen it....

Williams: You mean economically?

H.M.Jr.: Yes. And when this thing begins to roll, try and stop it and build it up.

Williams: I'm afraid of the opposite, Mr. Secretary. Now take the President's statement of yesterday. He said we are going too fast in producers' goods, in durable goods. And now you come out today with a statement which says we must preserve an orderly capital market for the sake of recovery. Now those two statements are on opposite sides.

H.M.Jr.: No, I don't agree. That is just where I don't agree with you. I don't agree with you and as far as I can tell as to your principles and what the Government is trying to do, I think we think entirely alike but the only place that you and I differ is that I believe that you monkeyed with this carburetor and you made our mixture too thin, and the engine is coughing. Now you don't believe - you don't believe that has got anything to do with it.

Williams: Well, if I thought we were having an economic downturn, that would be different.

H.M.Jr.: Well, it may be - it is like everything else; you may have to wait two or three years to recognize it, but I sense it and everybody in the Treasury does.

And I don't like to drag Dr. Goldenweiser in on this thing, but certainly in talking to him he has been thinking right along with us, and the only argument he had last night was, when we got all through - he said, "Instead of making it four hundred million, make it two hundred and fifty million, so it looks as though we were going fifty-fifty." And I don't want to try to quote you (Goldenweiser)...

Goldenweiser: That's right, quite right, Mr. Secretary. I would even much rather do what seems to be in prospect today, of having the Federal Reserve do it alone. I was in favor of that, have been in favor of that since three weeks ago.

Williams: Well, all I am suggesting

H.M. Jr.: Now I withdraw. I know - I withdraw, and I'll take the position that I will sit back and see whether the Federal Reserve will act.

But honestly, I believe - as I say, there is nothing motivating me from selfish necessity, because we are in a beautiful position. The people now can sit back and say what happened in 1920. How many years does it take them to recognize what happened in 1920? And - I mean I sense this thing.

Williams: What happened in 1920, Mr. Secretary, was that the Reserve System was forced to keep its rates down owing to a Treasury welfare agency, and that is commonly cited; it is not only in books but on everybody's tongue and that is that this is in danger, if I may say so, of developing into a similar situation. That is commonly recognized as a major error.

H.M. Jr.: Well, I can - now, we had - I hate to quote people that are not here, but we had Dr. Viner down here for two days and he had been away and so he wasn't quite familiar with it. But his conclusion, the last thing he said - he said, "I can't say it will do any good, but I feel it won't do any harm." Now that is what he said when he left. He said, "I can't see that what you are recommending will do any harm, but I can't promise that it will do any good."

- Williams: My suggestion isn't a real difference, Mr. Secretary. It is this: That it almost - I mean nobody wants to see a really dis-orderly market, but might it not be prudent to wait this thing out a little? As you say, it can't hurt you. Now whether it would hurt the business situation I think would depend on how far it went. And it is so desirable, in my opinion, that the market find its own level, if possible.
- H.M.Jr.: But I think you people - I think you are forcing this thing down. Now that is what I believe. It isn't natural. I think you people - whatever name you go by, whoever is back of this policy, that you are forcing this thing down. Now that is what we believe.
- Now Harrison asked me why I didn't say something. I waited until Eccles came to my office Thursday afternoon and said, "We've got to make a showing." I didn't send for Eccles.
- Eccles: You said to me, "I was just wondering how long it would be before you came to that conclusion."
- H.M.Jr.: But I didn't ask you to come.
- Eccles: No, but I knew.
- H.M.Jr.: You came Thursday. I didn't send for you and I said I just wondered how long it would take you to come to that conclusion. I mean I didn't phone him and say that this was the time to do it. Eccles came and he said he felt that something should be done, and he even had it sort of half in his mind to do it Thursday night.
- Eccles: No, I didn't talk of any time. I said, "I think that this situation is disorderly due to an unnecessary lack of confidence in the picture developing, and I think it needs a show of strength and a show of leadership at this time is necessary."
- H.M.Jr.: And if you ever had a lousy market, you had it Friday morning the first hour. You had about the worst market you have had any time.

- Williams: Well, something came out in the papers - I forget just which day - that the Treasury had run out of funds. That had a bad effect on the market.
- H.M.Jr.: I think that was Tuesday.
- Williams: What I am suggesting is this. Of course, I can just say it and you will throw it away. The way I feel about it, if you say to yourself, "Well, we have lived through this. Now we are pretty well along toward May 1st. Suppose the bond market goes to 3 per cent, for example. Now perhaps that is the time to be prepared to act. But let's feel it out and give it as much time as we think we safely can, to find its own bottom, because it will be so much more wholesome if that happens," - then you won't have to worry about whether you have put in some artificial stimulation, whether you will be expected to do it.
- H.M.Jr.: But, Professor Williams, is there any reason that you know from the demands in business why we should go back to a 3 per cent market at this time?
- Williams: No, I don't think you'd say, with the volume of funds seeking investment that it should be 3.
- H.M.Jr.: Well, you know, it gets to 3 and people say, "We won't buy except on 3." It was in the Tribune - they're saying it now. People are talking about 3 per cent. Then you've got a buyers' strike. "We won't buy except on a 3 per cent basis."
- Goldenweiser: I think the mistake that John Williams is making, and it isn't often that I find I disagree with him, is that he is confusing money-market policy with credit policy. I think our credit policy over a long time now should be generally directed toward restraint, because we are likely to need restraint in the next two years or even in the next few months. But that doesn't mean that we need to have a disorderly, very rapid and precipitate fall in the bond prices at this time. It is a question of short-time fluctuation as compared with long-time trend.

I feel very strongly that in the light of the increase in reserve requirements, which amount to three billion dollars since last July, a cushioning of it to the extent of a few hundred million is not only justified, but in view of what has happened is essential and necessary.

Eccles: That's my position.

H.M. Jr. Well, that's the Treasury's position.

Williams: Well, it comes down, it seems to me, to a question of judgment.

Eccles: Of course.

Williams: As to just what is the best way to see the situation through. Now if the market- if the liquidation is mostly over, you've got a chance of a big victory by just sitting tight.

Eccles: You're letting it go down to 3 per cent and letting all the little banks and outfits in the country sell out and then letting the big banks and all the big boys and speculators purchase at the bottom. I mean that seems to me to be a factor in the situation.

We think after such an adjustment there certainly should be some evidence of confidence somewhere to let them know certainly that with a managed money picture, you are not going to let nature just quietly take its course or let the financial community or the speculative community dominate it.

Haas: The trouble is - John, isn't this true: That is, don't you stretch terminology when you talk about a natural money market at all times? The central bank policy makes it more or less an artificial market and why not recognize it?

The other point is that what we are concerned about in the Treasury is not Treasury bonds. We were concerned about the corporate bond situation, and we saw this: That the utilities

now weren't getting along on refunding operations - the railroad, just beginning; housing, where most of the unemployed people would be taken up - with rates going up sharply. Now I don't know of anybody that can tell whether that - several months from now you get a business recession - that this move wasn't the cause in the fundamental change in the general business picture, and that is the apprehension we have. The only reason the Secretary was talking in terms of Government bonds was because they are the prime security, but as he said, he wasn't so much concerned about the Treasury financing as the general business picture because on that is our revenue based. And I am really concerned about what the '38 picture might be. The picture right now is very clouded as to what the development might be in 1938. It may be clear to you. I'd like to talk to you about it afterwards.

- Williams: Well, I've been hoping myself that we get a little business recession. If you look at the index of production, it is just like - you look at any past history and whenever you see it go up so fast, you see it go down - maybe not way to the bottom. I'd like to see this thing edging off.
- Taylor: Are you stating that as a reason for changing a fundamental cheap-money policy?
- Williams: No, I don't want to see a change in the cheap-money policy.
- Taylor: Well, isn't that what this is all about?
- Williams: Yes, but it is all relative.
- Taylor: But you have to indicate at some place that you want to continue the cheap-money policy.
- Williams: I would say though that 3 per cent money is cheaper today than 2 1/2 per cent would be a year ago, because prices are high and prices are going up and there is more willingness than there was before to expand. I mean it is all relative.

- Taylor: How about the farmer and the small home owner?
- Williams: Well, I don't know that the farmer and the small home owner - Agriculture is doing awfully well.
- Upham: You mean prices are high?
- Williams: Yes.
- Upham: Yes, but they have nothing to sell.
- Williams: Farm income has gone up.
- Upham: I have just come back from Iowa and there is certainly no prosperity in that section.
- Williams: Well, I don't know about Iowa, but certainly farm income is higher.
- McKee: The farmer is not getting much benefit at these prices.
- H.M.Jr.: Eccles, look, why don't we stop now?
- Eccles: Let me say this. We have worn the Secretary and everybody out here, and we appreciate the opportunity for this frank and free discussion. And I am awfully glad to have him get the viewpoint of some of these people that I have been with all day and for them to get his point of view, and for me to take my point of view before both of them. Now the full committee expects to meet in the morning. If the Secretary wants to meet with them, we'll be glad to have him.
- H.M.Jr.: No, thank you.
- Eccles: All right. Now then, I can only say this, that we will meet in the morning and we will try to come to some conclusions. What the committee as a whole will do, I can't say, but just as soon as we come to a definite conclusion, I will advise you.
- H.M.Jr.: I will await anxiously that word.

- Harrison: And if some of us want to talk, we can still do it.
- H.M.Jr.: Pardon me?
- Harrison: If any of us want to talk to you, we can still do it.
- H.M.Jr.: Yes. I mean if anybody wants to get me tomorrow afternoon....
- Eccles: He means after tomorrow.
- H.M.Jr.: But I'm going to say now....
- Eccles: Tell him no, because, damn it, make him take some action. I'm getting tired.
- H.M.Jr.: I think we're all of age and I think we can have honest differences of opinion and still keep our respect for each other. That's the way I feel. And I think this is one of the most important things that I have faced since I have been here. And I again want to say the last word. - I don't say I want the last, but at least my last word is that I think the most important thing of all is that after three years of working together, we continue to work together. I think that is the most important thing.
- Eccles: But you also say, as I understand it, that if we don't do something about the situation - that you are not telling us what to do, but you have told us the way you feel about it and that then so far as we are concerned the Treasury and the Government will do something and they will go it alone.
- H.M.Jr.: That's right.
- Eccles: That's the way I understand it and that's after consultation with the President.
- H.M.Jr.: That's right.

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UNITED STATES TREASURY DEPARTMENT

AMERICAN CONSULATE GENERAL

SHANGHAI, CHINA

OFFICE OF
THE TREASURY ATTACHE

April 3, 1937.

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

Dear Mr. Secretary:

Headed by Dr. H. H. Kung, Minister of Finance, the Chinese delegation to attend the Coronation of King George VI and Queen Elizabeth in London on May 12, sailed from Shanghai yesterday at one P.M. aboard the s.s. Victoria.

For your information, I have the honor to submit the names of the leading members of Dr. Kung's entourage, with a short biography of each.

Dr. H. H. Kung (Kung Hsiang-hsi 孔祥熙)

Envoy Extraordinary; Vice-President of the Executive Yuan and concurrently Minister of Finance

Age 56; native of Shansi; descendant of Confucius in the 75th generation; graduated Oberlin College 1906, M.A. Yale 1907, LL.D Oberlin 1926; revolutionist, educator, and reformer in Shansi; official in Canton Government of Sun Yat-sen, and prominent in Kuomintang party from the beginning; has held many high posts in Nationalist Government, including special missions abroad, Minister of Industry, Minister of Finance, and Vice-President of Executive Yuan. Wife is sister of T. V. Soong, Mrs. Sun Yat-sen, and Mrs. Chiang Kai-shek.

Admiral Chen Shao-kuan (陳紹寬)

Deputy Envoy; Minister of Navy

Age 49; native of Fukien; graduated Naval College, Nanking, 1907; later special courses in America, Japan, and Europe, including service in British surface ships and submarines during the War; Naval

Attache in London, 1919; long service in Chinese Navy; in 1929 appointed Vice-Admiral, Vice-Minister of Navy, and chief technical delegate to World Disarmament Conference in Geneva; Admiral and Minister of Navy since 1932.

His Excellency Quo Tai-chi (郭泰祺)

Deputy Envoy Ex-Officio; Chinese Ambassador at London

Age 49; native of Hupeh; educated Easthampton High School and Willeston Seminary, Massachusetts, graduated University of Pennsylvania 1911; official in Republican Government 1912-1917; secretary to Sun Yat-sen in Canton Government 1917, subsequently other high offices and missions under the Government; 1927-1928, Commissioner for Foreign Affairs at Shanghai, Vice-Minister and Acting Minister for Foreign Affairs; chief delegate in Shanghai Armistice negotiations with Japanese, 1932; Minister to Great Britain, 1932-1935; Ambassador to Great Britain since 1935; delegate to League of Nations and Chinese Representative on League Council; delegate to Disarmament, Economic, and Monetary Conferences.

Dr. Oung Wen-hao (翁文灏)

Chief Secretary; Secretary General of the Executive Yuan

Age 48; native of Chekiang; graduated Louvain University; Director of Geological Survey since 1922; former President of Tsinghua University, Peiping; manager of mining company; author of books on Chinese geology; Secretary General of Executive Yuan since 1935; bears exceptional reputation among the Chinese for ability and personal integrity.

Mr. T. K. Tseng (Tseng Tsung-chien 曾宗鑑)

Counsellor; Administrative Vice-Minister of Railways

Age 55; native of Fukien; graduated Nanyang College, Shanghai, 1901; later studied King's College and graduated Cambridge; revolutionist; held various government offices; Minister to Norway and Sweden, 1926; industrialist; secretary of flood relief organizations since 1930; secretary of Commission for Readjustment of Finance since 1929; treasurer of British Boxer Indemnity Board since 1929; Vice-Minister of Railways since 1936.

Mr. Chu Chang-nien (褚昌年)

Counsellor; Superintendent of Customs, Shanghai;
formerly Minister to Norway and Sweden

Mr. Chang Fu-yun (張福運) (F. Chang)

Counsellor; Member of National Economic Committee

Age 47; native of Shantung; graduated from Harvard, A.B. 1914, LL.B. 1917; various educational and official posts; secretary to Chinese Commission in Siberia, 1919-1920; secretary to Chinese delegation to Washington Conference, 1921; drafted marine laws of China; Director of Customs Administration and Chairman National Tariff Commission, 1928-1932; member of Advisory Committee of National Economic Council; protégé of T. V. Soong; an able and upright administrator; is a close, personal friend of the writer.

Mr. Kuo Ping-wen (郭秉文) (P. W. Kuo)

Counsellor; Director of Bureau of Foreign Trade

Age 57; native of Kiangsu; graduated Wooster, Ph.B. 1911, Columbia M.A. 1912, Ph.D. 1914; educator; Dean of Teachers College, Nanking, 1915; President Lawrie Institute and Chekiang Provincial College, 1916; Chairman Educational Commission to Japan and Philippines, 1917; Chairman Educational Mission to Europe and America, 1916; President Southeastern University, Nanking, 1922-1925; Vice-Chairman World Federation of Educational Associations, 1926; Director of Foreign Trade Bureau of Ministry of Industry since 1931; General Secretary China Institute of Foreign Relations since 1932; manager Ta Hwa Trading Corporation and Shanghai Trust Company; was a member of the K. P. Chen Commission to Washington on Monetary Conference.

Sir Frederick Maze, K.C.M.G.

Counsellor; Inspector General of Chinese Maritime Customs

Age about 65; native of Northern Ireland; entered Chinese Maritime Customs service about 1893, rising to senior Commissioner; in 1929, after protracted unprincipled intrigue, succeeded in displacing A. H. F. Edwards and was appointed Inspector General of Customs; his political astuteness has brought the service intact and strengthened through several severe crises; is entirely unscrupulous and violently anti-American; aspires to a baronetcy, and is reputed to have engineered his own appointment to the Coronation Party as a means to this end; wife is Australian and a very smooth and clever diplomat.

Lt.-Gen. Wen Ying-hsing (溫應星)

Military Attaché; Commander of Revenue Guard

Age 50; native of Kwangtung; graduated Nanyang College, Shanghai, 1901; attended Virginia Military Institute, 1904; attended U.S. Military Academy, 1905; military offices in Canton and Shanghai, 1910-1912; military

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offices under Sun Yat-sen, 1913; railway and mining engineering, 1914-1917; brigadier general in Manchuria, 1920-1923; in charge business of Woosung Port, Shanghai, 1926; President Tsing Hwa College, 1928; Chief of Ministry of Finance Preventive Force, 1930; Dean of Gendarme and Police Department Central Military Academy, 1931; Commissioner Public Safety Bureau of Shanghai, 1932; member Sino-Japanese Joint Commission, 1932; Commander Revenue Guard since January, 1933; is a member of the Molly Wendt family.

Rear-Admiral Lin Sheng-hsin (林献忻)

Naval Attaché

Colonel Shen Te-hsueh (沈德燮)

Air Attaché; Director Hungjao Airdrome

Age 42; native of Fukien; graduated from Chefoo Naval Academy and attended Peking Aviation School, 1916; studied aviation in Vickers and Rolls-Royce factories, 1919; in 1921, graduated from pilot course in Army Service School at Arcadia, Florida, and had advanced courses at Kelly Field, Post Field, and Fort Sill; Director Peking Aviation School, 1923; commander of an air squadron under Wu Pei-fu; chief of aviation with Nationalist Army, 1925; adviser to Aeronautical Department, 1927; Director of Hungjao Airdrome since 1928; constructed the first plane ever built in China.

Mr. Chen Ping-chang (陈炳章)

Secretary; Secretary of Ministry of Finance

Age 37; native of Fukien; graduated St. John's University, Shanghai, 1921; Princeton M.A. 1924; studied Yale, 1926; Dean Political Science Department, National Chunan University, Shanghai, 1927; Secretary, National Tariff Commission, 1928; various positions in tobacco and consolidated tax services, since 1928; Finance Commissioner for Rendition of Weihaiwei, 1930; Secretary, Ministry of Finance since 1928; personal secretary to Dr. H. H. Kung since 1933; numerous writing on economics and finance; is a close, personal friend of the writer.

Mr. Chen Li-ting (陈立廷)

Secretary; Political Scientist

Age 43; native of Hopei; graduated Tsinghua College, Peking, 1913, Yale 1917, studied at Harvard; served in Y.M.C.A. in France; Chinese National Committee Y.M.C.A. 1919; general secretary Y.M.C.A., Peiping, 1928, Shanghai, 1929; executive secretary, China Council, Institute of Pacific Relations, 1929; research director, Kinchong Banking Corporation, since 1932; author and translator.

Mr. Hu I-kou (胡詒穀)

Secretary; Chief Procurator, Kiangsu High Court

Age 61; native of Chekiang; graduated St. John's University, Shanghai, 1897; did educational work; studied Universities of California and Chicago; A.B. and LL.B. University of Illinois 1909; various legal posts Chinese Government; professor of law at Peking, 1909-1912; Dean of Nanyang College, Shanghai, 1913; Judge of Supreme Court at Peking, 1913; Judge of Prize Court, 1917; Chief Justice Third Civil Court of Supreme Court at Peking, 1925; President Court of Appeal of Shanghai Provisional Court until dissolution in 1930; Chief Justice Civil Division Shanghai Special District High Court 1930-1933; President Chinkiang District Court, 1933; Chief Procurator Kiangsu High Court since 1934; member of various commissions for study of judicial questions; editor of pocket Chinese and English dictionary.

Mr. Chang Ping-chun (張平羣)

Secretary; Counsellor of the Executive Yuan

Mr. H. O. Tong (Tang Hai-an 唐海安)

Attaché

Age about 45; native of Kwangtung; attended Shanghai Baptist College; B. Sc. London University; Director of Wine and Tobacco Tax Bureau with Canton Government; Commissioner of Police in ex-German Concession at Hankow; Secretary to Minister of Finance T. V. Soong; Superintendent of Customs, Chinkiang; Superintendent of Customs, Shanghai 1933-1935; lately acted as Administrator of the Salt Administration in Canton, but was suddenly relieved of that office for openly selling jobs; at present is operating an office, under the title of the Tienlan Mining Company, in room 305, Shanghai Commercial and Savings Bank Building, Kiangse Road, Shanghai. It is believed he is actually engaged in disposing of monopoly opium and, confidentially, our investigation of the source of smoking opium seized in the United States, Hongkong and Shanghai since January 1, 1937, has been traced to the Shing Hing Club, a Cantonese commercial club, whose headquarters are in the same building as the Tienlan Mining Company. This individual is a protégé and former body-guard of T. V. Soong. He is a racketeer and vicious gunman, probably personally a murderer; is a boisterous, swaggering, troublesome, loud-mouthed, smart aleck, but at heart an arrant coward. Very close to Madame Kung.

Mr. Quo Tai-tsing (郭泰楨)

Attaché; Director Municipal Bureau ex-British Concession at Hankow

Age 38; native of Hupeh; graduated University of Pennsylvania

1925; New York University M.B.A. 1926; various posts in Ministry of Foreign Affairs; Superintendent of Customs, Wuhu, 1927; member of the Treaty Commission of the Ministry of Foreign Affairs 1928-1931; handled taking over of Tsinan after Tsinan incident of 1929; Associate Director and Acting Director of Shanghai Office of Ministry of Foreign Affairs 1931-1932; Director of Municipal Bureau of Special District No. 3 (ex-British Concession) at Hankow since 1932; managing director of Hankow Herald; may be of difficult temperament, as in 1927 he caused the removal of T. A. M. Castle, Commissioner of Customs at Wuhu, a man of long service and good but not outstanding reputation; brother of Quo Tai-chi (above), Ambassador to Great Britain.

Dr. C. Kuangson Young (楊光浩)

Secretary; Managing Director of the China Press

Age 37; native of Kiangsu; graduated Colorado College 1921, Princeton Ph.D. 1924; student attaché at Washington Conference 1922; third secretary Chinese Legation at Washington 1924-1927; secretary Chinese Delegation International Opium Conference at Geneva 1924-1925; professor of Chinese at Georgetown University 1926-1927; various posts in Ministry of Foreign Affairs and commissioner in mixed claims commissions; Consul General in London; member Chinese Delegation to World Economic Conference 1933; managing director of the China Press, Shanghai.

Dr. S. P. Chen (Chen Shi-pang 陳祀邦)

Attaché; Principal Medical Expert of Ministry of Interior

Age 57; native of Kwangtung, born in Singapore; graduated in science from Cambridge; degrees in medicine and surgery from Cambridge, with work in London hospitals; served as chief medical officer of North Manchurian Plague Prevention Service; director Government Isolation Hospital in Peking; plague suppression work in Shansi, 1918; president Peking Rotary Club 1928; principal medical expert of Ministry of Interior.

Mr. Gene L. Chiao (Chiao Ching-liang 喬景樑)

Attaché; Official of Ministry of Finance

Age about 40; native of Shansi; graduated from Oberlin College about 1924; served as dean of Oberlin in China; for about five years has served as an administrative assistant to Dr. H. H. Kung.

Mr. Stanley F. Wright

Secretary; Retired Commissioner of Customs

Age about 65; native of Northern Ireland; entered Chinese Maritime Customs service about 1895 and retired a few years ago after serving

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as Commissioner and Inspectorate Secretary for many years, including several years as Personal Secretary to the Inspector General; from about 1915-1925 was in charge of the service of all Chinese loans; author of one book and co-author of another on this subject; knows more about this subject and the internal history of the Customs than any other man alive; is a little subject to the Irish weakness of harboring prejudices, but at bottom a profound scholar and a man of staunch and outspoken moral character; for this reason has had serious quarrels with his cousin, Sir Frederick Maze, who however has apparently been unable to do without him and has kept him on, doing special work, after retirement; is an experienced negotiator and likely to be the brain center of any negotiations undertaken by the party; his appointment thereto came at the last moment and probably indicates his presence considered necessary for some such purpose; wife is Norwegian, of peculiar temperament, and not interested in diplomatic affairs.

Other less prominent members of the Kung party, assigned as code clerks and advisers, are:

Dr. C. W. Wu (吳景超) - Secretary
 Mr. Tsing-yao Lee (李駿耀) - Attaché
 Lt.-Gen. Y. C. Kwei (桂永清) - Military Attaché
 Major H. C. Hu (胡獻華) - Military Attaché
 Lt.-Comdr. Y. T. Chow (周應聰) - Naval Attaché
 Lieut. C. Lin (林遵) - Naval Attaché
 Lt.-Col. C. F. Wong (王承敏) - Air Attaché

Respectfully,

M. R. Nelson

MRN.G