

DIARY

Book 63

April 5 - April 8, 1937

Budget

FDR memorandum to heads of executive departments, et cetera, asking for careful survey of expenditure requirements for remaining months of fiscal year 1937, with a view to making substantial saving by eliminating or deferring all expenditures not absolutely necessary at this time; revenues for present fiscal year will be materially less than amount estimated in budget message of last January - 4/7/37..... LXIII 195

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American Embassy, London, cables of ticker report under Washington date-line: several of largest banks have cabled London agents, refusing acceptance of further gold consignments and also refusing additional advances against gold in transit; reason is strong rumors that United States Treasury plans to reduce its gold or to change handling price with view to reducing imports of gold - 4/7/37 and 4/8/37..... 178,184,275
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 Cochran reports on luncheon where Sprague addresses 120 members of American Club of Paris, speaking principally on prices and gold, with considerable reference to rearmament influence - 4/8/37..... 277

Government Bond Market

HMJr brings 9:30 group up-to-date on three weeks' work with Federal Reserve Board (See Book LXII) - 4/5/37... LXIII 3

- a) At close of conference at HMJr's home on Friday night, 4/3/37, agreement has apparently been reached: Federal Reserve to begin open market operations, increase its portfolio, and put in \$400 million worth of gold; Goldenweiser asks HMJr to think over putting in \$250 million worth of gold
- b) As time passes, Eccles withdraws more and more from this position; HMJr feels that he (Eccles) does not have situation under control
- c) HMJr decides he and Eccles should talk to FDR; FDR suggests that HMJr say to Federal Reserve: "Congress gave you the job of managing the money market; you have not maintained an orderly market; therefore I, HMJr, serve notice to do what Congress has given you the power to do, namely, to buy and increase your portfolio or the Treasury will step in and take over the job"
 - 1) Eccles "tickled pink"
- d) HMJr calls in group at 9 that night and they stay until 11:30
 - 1) HMJr "very quietly served notice"
 - 2) Goldenweiser completely agrees with Treasury and sticks to his point
 - 3) Burgess completely silent
 - 4) Harrison continues to pick flaws in everything
 - 5) Williams: "Haven't you the courage to wait and do nothing until the 1st of May, when the thing will straighten itself out?"
 - 6) McKee absolutely for it
- e) Federal Reserve comes to agreement next day: willing to go whole way
 - 1) FDR pleased; asks HMJr if he told Federal Reserve that once the Treasury stepped in, they were there for life; HMJr answers he did not have to
 - 2) HMJr pleased there's no break between Federal Reserve and Treasury

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- Letter by Oliphant, with HMJr's signature, transmitted to FDR: five cases pending before Federal Trade Commission against some of the largest distilling companies involving monopolistic practice of fixing retail prices in violation of Federal law against resale price maintenance; Tydings-Miller bill, reported out in both Houses, would legalize monopolistic practices on which these cases rest - 4/6/37..... LXIII 175
- Letter prepared by Oliphant and signed by HMJr carried to Speaker Bankhead by Hester: Congressman Fuller stated on floor of the House, that representatives of liquor industries are able, unduly and improperly, to influence Treasury's action in the taxation and control of the liquor industry; Treasury welcomes full investigation - 4/6/37..... 176

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- Magill and Bell talk over letter for FDR's signature at group meeting (HMSr present) - 4/5/37..... 1
- a) HMJr suggests stressing fact that members of railroad union are better off under Treasury plan
- b) HMJr thinks letter should be 20% railroad retirement and 80% budget (which it will upset)
- Conference in HMJr's office; present: Magill, Bell, Gaston, George Harrison, Pelley, Senator Harrison, Doughton, Latimer, and Altmeyer - 4/5/37..... 53
- a) HMJr tells group at luncheon with FDR it was decided not to send letter to Harrison and Doughton but that memorandum prepared in Treasury should be discussed with entire group

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b) After lengthy discussion, reporters are called in and told Railroad Retirement Board, Social Security Board, Treasury, and Board of Actuaries of Civil Service Retirement Fund are to get together, ascertain cost, et cetera, of plan, and report to HMJr by end of week		
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GROUP MEETING

April 5, 1937
9:30 a.m.

Present: Mrs. Klotz
 Mr. Taylor
 Mr. Oliphant
 Mr. Magill
 Mr. Gaston
 Mr. Haas
 Mr. Gibbons
 Mr. Bell
 Mr. Upham
 Mr. Henry Morgenthau, Sr.

Bell: I don't know how far we're going to get on this railroad retirement thing. It worries me a little. The other part of it is important certainly - the budget end, the whole revision.

H.M.Jr: Yes, but this is the vehicle you put it in, see? You get my idea?

Magill: Uh-huh.

H.M.Jr: And certainly the President was in the spirit Saturday and Sunday that he would like to take the thing like that. I mean I'd make it 80% budget and 20% railroad retirement.

Magill: Well, that's the proper proportion.

Bell: Well, can we do this? The actuaries are certainly not in agreement, and the Board of Actuaries of the Civil Service Retirement Fund have been over this proposal, and they have got in here a letter pointing out the errors in the railroad retirement scheme, signed by two of them, and Reagh left Saturday to go down to Pinehurst to get the signature of the other member. He is supposed to be back this morning with a draft of the letter. Now, can we argue an actuarial point?

H.M.Jr: Oh yes, as long as this Board of Government Actuaries plus Social Security actuaries, plus

the Treasury, are in accord.

Bell: Well, I think that strengthens our position if we can do that.

Magill: I don't think there is any real disagreement among the actuaries, as far as that part is concerned.

Bell: You don't?

H.M.Jr: Also I would stress the fact that if you take our plan - the members of the railroad union are better off under our plan than under the plan that they have agreed to. I mean the men will get more money under our plan than the others. Isn't that right?

Magill: That's right.

H.M.Jr: I think if that gets out publicly to the members of the railroad union, that they will be better off under our plan

Magill: As a matter of fact, I understand that the men are kicking about the new plan.

H.M.Jr: Well, for Heaven's sakes, put that in, that the members of the union will be better off under our plan than under the new plan.

Then if you could put something in, a little sob stuff - we must think of our grandchildren, this will go to our grandchildren - my father's great grandchildren. He's terribly worried about it.

(Gibbons comes in)

H.M.Jr: Well, have you got it? Anybody want to work with you (Magill) besides Bell?

Bell: First draft - I think we could go ahead.

H.M.Jr: As soon as you have it, we'll drop everything. But I really think we can do the job and the President to me seems to be in that mood that he would sign a thing like that. See?

How's the Port of New York, Steve?

Gibbons: Well, that fellow who sent you that letter is just a little bit cock-eyed. We can't do anything until he goes in and makes an entry, pays his duty. He said that this thing was held up for about nine days, while he didn't go down to clear his stuff for about three days after the ship arrived.

H.M.Jr: Well, what about the big picture, about the ships which are supposed to be lying down in the lower harbor?

Gibbons: Well, there were a couple of piers out of repair. John Franklin said that the Italian line was docking at their pier. That was only for a few days.

H.M.Jr: I mean is the situation in hand or not?

Gibbons: The situation is in hand, yes. This letter was exaggerated.

(H.M. Sr. leaves)

H.M.Jr: Well, some of you have been in on this Federal Reserve stuff and some of you haven't. And those who haven't I'll tell you what's happened. It's really been three weeks' work.

We met at our house Friday night with Marriner Eccles and Dr. Goldenweiser and Elliot Thurston, some of my people. We thought we had come to an agreement. In fact, we drew up a statement which everybody agreed to.

Well then, he started to meet with the full open market committee Saturday and kept calling me all day, and as the day went on he withdrew more and more from the signed statement, which made it more and more difficult for me. He had agreed the night before that they would begin open market operations, would increase their portfolio, and that we would put in 400 million dollars' worth of gold. We agreed to it. Goldenweiser asked me to think it over whether we would do 250. But the thing was

agreed to.

As the day went on, Eccles more and more withdrew from his position, as he has at other times. Well, during the day he felt that they weren't going to get anywhere and that we were going to have an open break with the Board. I have felt right along that the most serious thing that could happen to Mr. Roosevelt's Administration would be a definite falling out between the Treasury and the Federal Reserve - I mean an open break. I mean it might eventually be for the good, but temporarily it would just add to his troubles.

And Eccles just didn't have the thing under control, and he was constantly withdrawing from his previous agreement. And I would check up - he would tell me I said one thing and I'd call up Taylor and you (Taylor) would say, "No such thing." It was really originally Eccles' suggestion that we put this gold back in, and he kept backing away from the thing.

So I suddenly got an inspiration and I called up the President and asked whether I could see him - didn't ask whether he'd see Eccles, and then the more I thought of it, I thought the best thing that could happen was to take Eccles with me. Mr. Eccles didn't know until he got to the White House whether the President would see him or not, and the President said he would. He gave us an hour, and he was resting, and he was clicking. And his first reaction to my statement, where we put the gold back in, would be that the public would think that the Treasury was trying to stand for inflation and the Federal Reserve was trying to stop it, and that would put us in a bad position. But his suggestion was that instead of the Federal Reserve putting in another 25% excess reserve requirements on the 1st of May, they do it in two bites. Eccles didn't like it.

And so the President said, "Well, the thing for Henry to do is this. Let him tell the Federal Reserve " Oh, I must go back; Eccles had asked me to see his group that evening.

Well, before I wanted to see that group, I wanted to be a thousand per cent sure that I knew what the President wanted, and I wanted to make a thousand per cent sure that the President would see me through thick and thin, because when I got down to a point of breaking with the Federal Reserve I wanted to make a thousand per cent sure that the President was behind me and I was doing what was wisest, because it's a pretty serious thing.

So out of that discussion came this. The President suggested that I should say to the Federal Reserve, "Now, Congress gave you the job of managing the money market and that is your responsibility. You muffed it. You haven't done it. You have let this thing - you have not maintained an orderly market, and this thing is getting steadily worse, and you have just not done your job. Now I, Henry Morgenthau, Jr., talking for the United States Government, serve notice on the Federal Reserve Board that I ask you to do what Congress has given you the power to do, namely, to buy and increase your portfolio. If you don't do it, the Treasury will step in and take over the job and they will do it. But we are putting you on notice." And we would do nothing until we put them on notice.

Well, it sounded good to me and I thought the President was right. Eccles was tickled pink. He agreed to it. That's what he wanted. I don't know - he changed on this gold business, a complete somersault.

So that night, about 9:00, the group came over and they stayed there until 11:30. I opened my remarks very quietly and told them that I had this right to speak for the United States Government. I served notice on them that if they didn't do something, we would. Well, it went on and on and on, and there were several members of the Board who were with us. And the thing really that bucked me up the most was that Goldenweiser completely agreed with the Treasury. And I want to say this for Goldenweiser:

Once he makes up his mind, he doesn't change. But he was in complete sympathy with what we were trying to do, and stuck by us and said so.

Bell: Surprising thing was that he didn't hesitate to say so before the whole group. That's what I

H.M.Jr: No. My admiration for him increases. He said so. Burgess just sat there like a "nit". His head was down, his eyes were down, his tail was down, and he wouldn't say a thing.

And Harrison kept picking flaws in everything we were doing, and finally - the only time I got rough in the whole evening - I said to Harrison, "Now everything we say or suggest is wrong; you say what to do." And his answer was to do nothing.

And Professor Williams, at the end - I don't know whether he had a cold or whether he was whining or what, but his suggestion was "Haven't you got the courage to wait and do nothing until the 1st of May and then this thing will straighten itself out, because everybody says the first time the Government bond market goes down you will do something like this artificially." So I said, "All we are trying to do is correct the artificial step that the Federal Reserve has taken to tighten money. We are not doing - in all the troubles we have had for three years, we have never used any artificial means, but all we want to do is correct what you have done artificially. There is no rime or reason why money rates should tighten other than what the Federal Reserve has done."

McKee was for it, too.

Bell: Very good.

H.M.Jr: Very good. My former banking commissioner of New York wasn't so hot. What's his name?

Taylor: Joe Broderick.

H.M.Jr: But the fellows who stood up and said what they felt and talked right from the shoulder were Eccles, Goldenweiser and McKee, and nobody else.

Oliphant: Ransom - how about him?

Taylor: He wasn't there. He isn't a member of the committee.

H.M.Jr: Must be ill.

Taylor: Well, he isn't a member of the committee.

Upham: McKee is on the committee in Ransom's place.

H.M.Jr: Well, any way, I being so tired didn't feel I got so far, but Eccles did. And the last thing Eccles did was to whisper to me - he said, "Would you mind repeating again what the United States Government will do if we don't do this?" So I made my talk again very quietly about what the United States Government would do if they didn't.

And during the course of the conversations, Goldenweiser leaned over to Gaston when Williams was talking and said, "Of all the damned rot I ever listened to, that's it." Isn't that right?

Gaston: He said, "John Williams doesn't often talk rot, but he is certainly talking rot tonight." And he told - he spoke out and said substantially that.

H.M.Jr: Well, at 6:30 last night they came to an agreement which I told Eccles was highly satisfactory to me and congratulated him, and they've gone the whole way now.

Gibbons: Was Eccles afraid to move until somebody backed him up?

H.M.Jr: No, Eccles decided he had to do something Thursday night which was - Thursday was the first time in three and a half years that they had to take it alone. They could take it just one day. And Eccles says that he tried all

the time he was down South to get them to do something and couldn't. And the answer was he couldn't do it until he got the backing of the President and myself. I mean that we just had to do - which I don't like to do - say, "The United States Government is going to step in if you don't." I mean I don't like to say that, but that's what did the trick.

But during the discussions - I mean so many things that I could have said but didn't. I mean we kept the thing on a very gentlemanly plane, and even Upham was pleased. Weren't you, Cy?

Upham: Very much.

H.M.Jr: And surprised how gentlemanly I was. He worried terribly when he came in, but as the evening went along, he saw how gentlemanly I was and he began to smile. And he left with a smile.

And Taylor took his black dog for a walk in the afternoon and talked it over with him, and decided we had to do something, and the dog was very pleased, wasn't he?

Taylor: Yes, the dog was very pleased.

Upham: Well, I was very pleased with the way Eccles did. He was all right Saturday night.

H.M.Jr: Pardon me?

Upham: Eccles was all right Saturday night.

H.M.Jr: Yes, he was all right Saturday night. And as I say, it was just a stroke of genius taking him to the President, but I felt that was what he needed. And we just caught the President between wind and water. He was resting. He had had a swim and he was feeling all right, and he told him in no uncertain terms.

Oh, and I wish you'd hear the President talk about balancing the budget to Eccles. God,

if he'd only say publicly what he told him, it would be marvelous.

Bell: Maybe it will get out.

H.M.Jr: Oh, the President was swell. And then I called him again last night to tell him about it. He said, "Did you tell him that once the United States Government stepped in we're there for life?" I said, "No, Mr. President, I didn't have to draw the picture; they got it." "Well, you should have told him if we stepped in, we'd stay there."

But he was very, very much pleased. And that's about the end of about as hard a three weeks' of worry and sweat as I've gone through since I've been here. I've never been through such a period - trying period in my life. It's lasted just exactly three weeks, since the 12th of March. Yes, it's just exactly three weeks, and what's left of me isn't much good to anybody. But it's been just three weeks.

Olyphant: Your three weeks' vacation.

H.M.Jr: But the thing that pleases me - I said that the thing that must not happen was a break between the Federal Reserve and the Treasury, and it hasn't happened, and I think it's worth it, because I really think it would frighten the country pretty bad.

Gibbons: I think that the economic royalists in Wall Street were hoping that you and Eccles didn't see eye to eye - hoping for that break.

H.M.Jr: It would have been the easiest thing for me to come back and give Eccles hell publicly because of the move that they made to put up interest rates. Business demands didn't call for it; there's been practically no increase in demands of business on the money market - practically none. I mean there's been about \$80,000,000 increase in loans since the 1st of January. That was March 17th - I don't know what it was March 24th; does anybody know? And the best thing that you can say for them is that they

most likely would not have done it if they had known they were going to have the strikes, etc. But the thing that has happened is that the banks not only want their reserve requirements but they want additional cash in case people have to come and draw their money. They've got this liquidity complex. You can put it down on paper and say, "This is going to work and these are the rules," and it just doesn't work.

Now, as I told the President - I hadn't told him before - what I needed was to find - was to kidnap General Chiang Kai-shek in order to save his face, and we just couldn't find a young marshal to do it. What we needed was a double kidnapping to save somebody's face. But they kidnapped each other yesterday.

And the President is going to wait about a week or 10 days and then send for George Harrison, and he said, if you don't mind ladies, "I'm going to take his pants down and take him over my knees." He says, "He's got it coming to him." He says, "I'm just going to take him over my knees."

But I think the people that don't like the President are the financial crowd, and they would love to have seen Eccles and me fall out. And their own Board - and his own Board

Gibbons: They were waiting for it.

H.M.Jr: Am I right, Wayne - Saturday night I started and finished with the statement that we mustn't fall out, didn't I?

Taylor: (Nods yes)

H.M.Jr: Huh?

Gaston: Yes.

H.M.Jr: It's all right. But that's that.

And the other thing, I wonder, Bell, whether you and I ought to get hold of Harry this afternoon and begin to talk to him what he's going to show the Governors when they come down Thursday.

Bell: Harry Hopkins?

H.M.Jr: Yes.

Bell: Is that definitely set for Thursday?

H.M.Jr: I think so. We could let it go until tomorrow.

Bell: Well, I think we are pretty well crowded up today.

H.M.Jr: Well, suppose I put him on notice.

Bell: Some time tomorrow afternoon, I think, would be better - better for you.

H.M.Jr: Well, I'll look up my dates.

Bell: I understood that there was only going to be one Governor one time, one has been changed.

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

But I think I'm going in to watch my markets. Anybody any newspaper? I like the heading "Federal Reserve To Buy." Everybody has got the same heading.

Gaston: Here is a fellow who has been causing a lot of trouble. He sends that to you personally with a lot of his comments (handing publication to Secretary). That's Major Angas; he's still at it.

Bell: Going to have a boom?

Gaston: Yes, and some more slop about bonds. He's still advising them to unload on Page 3.

H.M.Jr: Unload what?

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Gaston: Bonds, Government bonds.

Oliphant: He wrote that before.

Haas: He wrote a little book on it.

Gaston: He's sticking to it.

H.M.Jr: Well, maybe we can get Miss Perkins to have him deported.

Oliphant: He's selling lots of stuff.

H.M.Jr: I'm serious.

Oliphant: Making lots of money.

H.M.Jr: I'm serious.

Well, I'm going to take it a little easier this week to get ready for that relief business. Where's George? You (Haas) better go home at noon, George.

Haas: Thank you, but I've got

H.M.Jr: No, I'm serious.

Haas: No, thank you, I'm feeling fairly good.

H.M.Jr: Go on home at noon and stay home, go to bed. I'm serious.

Haas: All right, thanks. But I've got this budget; we've got to work on it.

H.M.Jr: Well, lay out your work; you can't do it personally. Lay out your work and go home at noon.

Haas: All right.

H.M.Jr: What?

Haas: Thanks.

H.M.Jr: I'd do it for a couple of days. At least, you can do it today any way.

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Haas: I feel I should take it as much as you. You've been doing the work; I've been sitting around listening.

H.M.Jr: I feel very happy today. I really do. Saturday afternoon it just looked as though Eccles couldn't handle it. But the President was swell. He was thinking, he wasn't rushed. He wouldn't let anybody come in. He just closed the door and he just concentrated on this thing, and he really was swell. I've never seen him click better than he did. And he was right, because this put the whole thing right on them, and if we had gone into it, why, it would have meant "Morgenthau is for inflation" and all this business - we would have broken - had a definite break and everything else.

Ald to show you, in the room, how the President turned, he said, "Henry, which of the bonds are selling the lowest?" I said, "The two and a halves." "I think they'd be a good buy now." He's changed; he's changed.

He - incidentally, who has that - could we find out from Bell's office this morning just how much money there is around?

Bell: There will be a report coming down this morning.

H.M.Jr: All right.

And then I am seeing Oliphant at 10:30. And then as soon as Bell and Magill - any time after 11:00 when Magill and Bell are ready, I'm willing to see you boys. How's that?

Magill: Good. We'll try to be ready at 11:00.

OFFICE OF
THE SECRETARY OF THE TREASURY

~~14~~

April 5, 1937.

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MEMORANDUM FOR THE SECRETARY:

For your confidential information I attach a telegram from Hanks, which you will find self-explanatory.

You will remember Ishibashi and Yamamoto as being the heads of the most important Japanese smuggling rings on the West Coast.

From this telegram, and from a telephone conversation which I had with Hanks Saturday night, my interpretation of the situation is that Hanks is in a fair way to get both these men some time in the near future.

The transfer of funds requested by Hanks has, of course, been attended to.

GRAVES.



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

April 3, 1937

NIGHT LETTER

SECRET

From: Mr. Hanks.
To : Mr. Graves.

Teruk, Seattle Unit, today seized approximately 25 pounds morphine contained in Japanese cargo arriving HEIAN MARU. This resulting from Portland intercepting telegram from San Francisco to Ishibashi; also wire intercepts over Ishibashi telephone to importing company of record offering to this particular cargo. Prospects look favorable to tying up Ishibashi and associates with violation without using wire intercepts. Agent McIntosh telephoned from Los Angeles has arranged immediate purchase 2 pounds morphine from Japanese lieutenant of Yamamoto needs sixteen hundred dollars immediately. I telephoned Manning who says must secure money from Headquarters. Respectfully requests you have Anallinger wire Manning money for purchase this case first thing Monday morning as matter urgent opportunity by letting purchase ride without immediate knock-over to get into Yamamoto. Please wire me action taken by you.

SECRET

Note: According to New York Maritime Register itinerary of HEIAN MARU as follows:

Osaka Mch 10 Kobe ar 10 & sd 15 Nagoya 16
Shimizu 17 Yokohama 18 Vancouver BC ar
29 & sd 29 Seattle ar 30

April 5, 1937.
10:22 a.m.

H.M.Jr: Hello

O: Mr. Hopkins.

H.M.Jr: Hello

Hopkins: Henry, this is Harry.

H.M.Jr: Yes Harry.

H: Henry, I promised Wallace I would call several of your people up about a meeting that he wants to have at his house on the 13th of April at 8:30.

H.M.Jr: The 13th of April?

H: Yes, that's a week from Tuesday. Is that.....

H.M.Jr: Well I'll have to check it with the house.

H: Can you be there?

H.M.Jr: As far as I know.

H: Yes.

H.M.Jr: If you don't hear from me within an hour you know it's all right.

H: All right, Henry, 13th of April.

H.M.Jr: Yes.

H: I thought - I thought we had a fairly good meeting on that.

H.M.Jr: Yes.

H: I think pretty soon it would be advisable if we could have one with fewer people present.

H.M.Jr: Yes. Now while I've got you on the wire.....

H: Yes.

H.M.Jr:with Lehman coming down Thursday.....

H: Friday, isn't it?

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H.M.Jr: I don't know, they told me Thursday.

H: Yes.

H.M.Jr: Bell and I thought we ought to have a dress rehearsal with you.

H: Oh I'd like to. I've got - I've decided to around at this meeting and I was going to put this stuff on - on charts and I've got a lot of stuff put on charts for that meeting.

H.M.Jr: Well when will you be ready to.....

H: Well I think I'll be ready any time now.

H.M.Jr: Will you?

H: Yes - ah - what - what time is the most convenient for you.

H.M.Jr: Well how about 11 o'clock tomorrow?

H: 11 o'clock tomorrow would be fine.

H.M.Jr: Well would you - would you just as leave come here?

H: Sure.

H.M.Jr: Thank you.

H: 11 o'clock at your office.

H.M.Jr: At my office.

H: All right, Henry.

H.M.Jr: Thank you.

H: Goodbye.

April 5, 1937.
10:27 a.m.

Congressman

Randolph: Mr. Secretary.

H.M.Jr: Talking.

This is Jennings Randolph.

H.M.Jr: How do you do.

R: You remember several weeks ago I called you about that vacancy created by the death of Mr. Durbin?

H.M.Jr: Yes.

R: - Register.

H.M.Jr: Yes.

R: And you told then that it has been promised.

H.M.Jr: That's right.

R: That's the situation, is it?

H.M.Jr: It's - it's entirely in Mr. Farley's hands.

R: I'll not bother you to say another word. I just was so interested in and I knew - been there for 35 years in the Surrender Section - in charge of it.....

H.M.Jr: Yes.

R: Who knows the job from A to Z and I couldn't help but call once more.

H.M.Jr: Thank you very much.

R: Goodbye.

April 5, 1937.
11:58 a.m.

H.M.Jr: Hello

Burgess: Hello, Henry. There isn't any average price this morning.

H.M.Jr: There isn't any average.

Burgess: (Hearty laughter) No, you can't refer to average price.

H.M.Jr: Yes.

B: Well so far it's been kind of wild and wooly all over the lot.

H.M.Jr: Yes.

B: The - ah

H.M.Jr: All right, I - I - how I'd love to have some of those boys around that said that this would be unfavorable and so forth and so on. I'd love to have a couple of them to rub their noses.

B: (Laughter)

H.M.Jr: In a nice wet dirty spot.

B: (Laughter)

B: Well -

H.M.Jr: Did you know that I have for three solid weeks just eaten my heart out of this - over this thing and kept my mouth shut.

B: Yes - yes.

H.M.Jr: For three weeks - you know that I called you up less during the last three weeks than anytime since I've been here. Just stop and think.

B: I know it, yes - yes.

H.M.Jr: I've talked to you less because I just didn't want to - I didn't want to let you know how I felt.

B: Yes - yes.

- 2 -

H.M.Jr: But there's one week I only spoke to you once.

B: Yes, I think that's right.

H.M.Jr: I didn't want to talk to you.

B: Yes, I've been very sad about it.

H.M.Jr: Sad, well there's no use - I had to do my weeping inside and believe me it's taken it out of me.

B: (Laughter) Well you don't have to weep to-day anyway.

H.M.Jr: No - no, but there's been no excuse for this.

B: Yes, well it's very hard to tell about the market so far; they're - speculative largely; there's very little - they're very few trades and very little real buying.

H.M.Jr: Are the dealers still weeping?

B: Oh no, just those that are short, that's all.

H.M.Jr: Who is short?

B: Oh well nobody was much short; very few were a few bonds short.

H.M.Jr: DeVine?

B: No - no.

H.M.Jr: "Discount?

B: He was pretty even. None of the big dealers were short more than, oh, a million or two of bonds, say.

H.M.Jr: Too bad.

B: They were just about even.

H.M.Jr: Ah-ha. Well it will be interesting to see if some of the institutions buy.

B: Yes, I think that's the problem.

H.M.Jr: Yes.

- 3 -

B: I think that they will wait until they see what the market does a little bit.

H.M.Jr: Until it shakes down.

B: Yes - yes.

H.M.Jr: All right.

B: I'll get more reactions as the morning goes on.

H.M.Jr: Thank you, goodbye.

B: Goodbye.

April 5, 1937.
12:45 p.m.

H.M.Jr: Hello

G: Dr. Goldenweiser.

H.M.Jr: Hello

Goldenweiser: Hello

H.M.Jr: Morgenthau speaking.

G: How do you do, Mr. Secretary.

H.M.Jr: I just want to take this opportunity to tell you that I want to congratulate you on your courage Saturday night and also on the stand that you took because I realize that you must have been in a very difficult position.

G: Well that's very kind of you, Mr. Secretary.

H.M.Jr: But my respect for you has always been high but it's just a couple of notches higher.

G: (Laughs) Thank you very much and I think things are working out very well.

H.M.Jr: Beautifully.

G: Yes.

H.M.Jr: And there's a certain other gentleman and they ought to transpose a piece of your backbone to him.

G: Well I think, Mr. Secretary, as far as that's concerned, I think he showed backbone.

H.M.Jr: No, I mean Williams.

G: Well I think he showed backbone; I - I think he - I think it sounded conviction with it.

H.M.Jr: Maybe.

G: I think - I didn't agree with him but.....

H.M.Jr: Maybe

- 2 -

- G:I really rather respected him for volunteering the position which he was quite sure would be very unpopular.
- H.M.Jr: Why was he so pale?
- G: Well it was because he was speaking - he was - I talked to him quite a bit - I really think that his - his conviction is quite honest but - and that he knew he was going to spoil his standing here and yet he went ahead he did it; I don't think we ought to hold it against his character, much as we may disagree with his conviction.
- H.M.Jr: Well if you add what he did in London plus this it - the two don't make such a good showing.
- G: Well it's very good of you, Mr. Secretary.....
- H.M.Jr: But I didn't call up to talk about Williams; I called up to tell you how - that - I mean I'm not saying "Thank you" because I didn't ask you to do this..... -
- G: No.
- H.M.Jr: ... - I couldn't but you stayed put and by God we needed that.
- G: Well I - I appreciate your - your.....
- H.M.Jr: And all these fellows said, "Well you can't buy a government bond this morning."
- G: (Laughs) No, no, that's right.
- H.M.Jr: No, it's all right.
- G: Thank you very much.
- H.M.Jr: Thank you.

April 5, 1937.
12:55 p.m.

Eccles: Yes.

H.M.Jr: Henry talking.

E: Yes.

H.M.Jr: I want Archie to tell you how they've been handling our order for a million dollars - life - you know we have an order here.....

E: Yes.

H.M.Jr: Just hear how they're handling it. I think it's - it's - they're not doing anything different than they did last week. Just listen to it.

E: All right.

Lochhead: Mr. Eccles, you see - the Secretary advised them up in New York that we had an order for one million government life - that was to go ahead and buy that million.

E: Yes.

L: At the opening, of course, the market was very disturbed with wide spreads and the - the closing quotations on Saturday on the 2-1/2's were 97.12 and the market here this morning was quoted at various rates and it worked up as high as 98.4 the first sale but they purchased 250 for us at 98.8 - you see they took 250 because they thought they ought to take something at the opening or as soon as they could get something. So they bought 250 at 98.8. Now the market, I've noticed here, had worked on down to 97.24 or 97.22 so I asked my men to call up the Federal and find out what more they had done on that order and they said they had bought another 250 at 97.24. Well, of course, I feel that's a fairly good break between 98.8 and 97.4 before stepping in and so I asked them, "Well what else are they doing." They said, well, they were putting in a bid at 97.20 for 250 and I told them to go - that's four points down and, in other words, it looks as if - I mean the idea is trying to buy bonds as cheap as can be bought. I just - everytime they got hit 250 they pulled out the bid again.

E: Yes.

- 2 -

- L: Now personally I don't feel that that is the way you're going to hold the bond market up or give it any encouragement.
- E: Well here - here's what we discussed this morning - ah - the market - can the Secretary hear me?
- H.M.Jr: Yes, I'm on the 'phone.
- E: Yes. The market on the 2-1/2's went up awfully fast - ah - ah - and - and very strong.
- L: Right.
- E: It went up nearly a point and, of course, some recession and that and some of the others was - was - was likely to happen.
- L: Yes - yes.
- E: And you know - ah - ah - I - then immediately I made the Executive Committee stay over here and they're here, see.....
- L: Yes.
- E:and I - I said, "Now listen, we've got to have some kind of a policy on this thing. Now it seems to me that - if we're going to give real support in the bond market - buy bonds.....
- L: Yes.
- E:ah - ah - at - are we going to wait until it goes down to Saturday's close before you support it....
- L: Yes.
- E:or - or - or when are we going to support it?" Well the general - the - the - the - the general feeling here was, after discussing it and discussing it with Burgess, that - that to - that to follow it up, for instance, after the market had gone up so rapidly, and try to hold it there.....
- L: Yes
- E:ah - ah - might be bad and what we should do is to let it recede down to say a quarter above the Saturday close, see, where it would say 8/32d's at least above the close and then to give it vigorous

- 3 -

support; not let it go down to the Saturday close, if it could possibly be avoided.

L: Well now let me, Governor. The - of course, now I didn't - I didn't speak to Mr. Burgess - I mean.....

E: Yes.

L:I called up immediately after - on to the Trading Desk and neither did Mr. Morgenthau.....

E: Yes.

L:and in fact, of course, I spoke to the desk which handled this order on the million here. Now, as I say, I agree that 98.8 - that's pretty rich, so, of course, they went ahead and I - we'd have no kick about them buying 250 there because it's an order we had to get.

E: Well don't we take half of those?

L: Not on that order - that's - that's - that is the million order for government life, you see?

E: Oh I thought we had to take the full item.

L: That's just the only order we'd have a full order in.

E: Oh I thought we take half of them.

L: No, you'd take half of the other but not on the government life order.

E: Oh, I see.

L: And when that comes down - then, as I say, when the market went down I agree, as I say, there should be possibly be some necessity of following but then when it gets down to 97.24 and then they pull in the bids at 97.20 and that's on 250 thousand dollar lots - now it may be - it may be that - ah - Governor Burgess is putting in some bigger orders someplace else but all I can see on the market, as I say, 250 with 4/32d's in between - now if I was handling foreign exchange I'd never try to hold the market with an order like that.

- 4 -

- E: Well, of course, they were not trying to hold the market at the high of the day.....
- L: Oh I'm not saying that.....
- E:but what they're trying to do is to start at a place above - at least around a quarter above....
- L: Yes - Saturday's close. But you see a quarter above, even on the 2-1/2's say at a quarter above Saturday's close would be over 97.20 and you said, "Vigorous support" - well now they're putting in a bid for 250 thousand, as far as I know. Now if the market....
- E: Well I just got through talking to Burgess....
- L: Yes.
- E:just as you called - I just had got through talking to him.....
- L: Yes.
- E:and I said, "Now, Randolph - he said the market had receded, see?"
- L: Yes.
- E: That it had gone up too fast and then there were some orders coming in and I said, "Well now it seems to me that what you've got to do is to - is - is - now this - when the market gets to around a quarter above that close is to give it - some - some support - but you've got to - if possible the market should be kept from going below Saturday's close.
- L: Well now you see the point of our calling up just now is, of course, we didn't know what - what instructions you have or.....
- E: That - that - that - that - that was the instruction - I got the Committee here and we discussed it and - and after all it's their responsibility and they discussed the thing and - well I just voted upon it and I called - I got a loud speaker in my office when they're here so I can turn it on now. I've got it here so Burgess can talk to them.
- L: I see.

- 5 -

- E: See? And then - and they could talk to him so that there would not -
- L: Yes.
- E: - so that they can all take this responsibility and not blame me.
- L: Well the Secretary just wanted me to call you up.....
- E: Well I'm glad he did.
- L:and get your angle on that so you'd know just how the thing worked to anybody on the outside.
- E: I'm glad he did. Now another thing I can say they're doing - they - they - they will - they were instructed to go into the market and buy from dealers five million of bills, see?
- L: Yes.
- E: Because you see you've got your bills to-day and the invitation to - to buy those from several of these dealers so that they will know.....
- L: Well I tell you Governor - I mean I.....
- E:that I was in the market for bills.
- L: Yes, they know they're in the market but I was just - wanted to call you up to let you know the indication - the way it looked to you just now and then later on probably you'll have something more on it but I just wanted to call up to let you know....
- E: Well I'm glad you did and I'll appreciate it, if you get anything else, to keep in touch.
- L: All right, sir, I'll do that.
- E: All right, goodbye.

April 5, 1937.
12:58 p.m.

Operator: Dr. Burgess - go ahead.

H.M.Jr: Hello

B: Hello

H.M.Jr: Burgess.

B: Yes.

H.M.Jr: What's on your mind?

B: Well I just wanted to tell you that some selling had come into the market.

H.M.Jr: Yes.

B: A number of the dealers said they had a good many selling orders.....

H.M.Jr: Yes.

B:so we have put in buying orders that - at an eighth above 8-1/4 above Saturday's close.....

H.M.Jr: Yes.

B:and we haven't been able to buy any yet though and just the last five minutes they look just a shade better so they're holding about a quarter above Saturday's close on the average.

H.M.Jr: Well, of course, you let them go way up and let them come down again it's going to make a very bad impression.

B: An - well what happened, you see, was that some of the speculators and so forth ran it up in the first few minutes and then there's the - the real market was heard from, of course, it didn't - it didn't go to quite those levels.

H.M.Jr: No, but I mean, for instance, you take in the government life - they bought for us at 98.8; they didn't buy any more until 97.24 and then the next order they had in was 97.20, see?

- 2 -

B: Well we just cleaned that order up now. It just went down to the Trading Desk.

H.M.Jr: Yes, what price?

B: Ah - (Burgess aside to someone in his office - "What did you get them at?") Just a minute.

H.M.Jr: Yes.

B: At 28.

H.M.Jr: At 28?

B: 28, yes, the market's a little better.

H.M.Jr: Oh, a little better. But I think if you're going to have your orders in at four - 4/32d's under the market that isn't going to give anybody any confidence.

B: Well we haven't got them in at 4/32d's under the market.

H.M.Jr: Well they.....

B: We got them in at above Saturday's close.....

H.M.Jr: Yes, but how much is that below the market?

B: What's that?

H.M.Jr: How much is that below the market?

B: Why it's very little below.

H.M.Jr: Well how much?

B: Very little below.

H.M.Jr: How much?

B: Ah - on some of the issues about a thirty-second.

H.M.Jr: Yes, but let's say you've got an order in an eighth above the closing -

B: No, well I'm - this isn't a board order.

H.M.Jr: Well are you going to keep it there? I mean supposing they hit your order, what are you going to do?

- 3 -

B: Put in some more.

H.M.Jr: Well I mean are you going to keep it there or are you going to withdraw it?

B: Well - ah - that depends on the situation; we buy some as we go back. You don't want to try to peg it, do you?

H.M.Jr: Oh well we've crossed that bridge so often I -

B: (Laughs)

H.M.Jr: I mean I'm getting - what's the use of asking me that? No, I mean I don't get the feeling if there's any - I'll be frank, I don't get any feeling there's any real push down there in New York but I - I can't - I can't - I can't - at this time I'm not going to attempt to give any advice but I just don't feel that there's any.....

B: Well I've gotten orders for three million outstanding with dealers here right now.

H.M.Jr: Yes. I mean I don't feel that - that there's any real vigorous effort in the thing.

B: Well we bought this morning five million Treasury bills....

H.M.Jr: Yes.

B:already; we've got orders in here - we bought your million for your government life; we've got orders in here for three million; an open-ended order with another dealer.

H.M.Jr: What happened to the bill market?

B: Ah - well -

H.M.Jr: I mean since you bought - is it - is it - is it -

B: What's that?

H.M.Jr: Has it strengthened any?

- 4 -

- B: Well that's pretty hard to say. You know there's no regularly quoted bill market.
- H.M.Jr: Yes.
- B: But we went the rounds of the dealers to pick up this five to give them courage.
- H.M.Jr: Ah-ha. Well let's see what happens.
- B: Yes. Well I - ah - ah - we want to run this thing - we're still partners even.....
- H.M.Jr: Pardon me?
- B:to know which account we're operating on. We want you to be satisfied you know.
- H.M.Jr: Yes, but I talked to Eccles; he said he's got this Open Market Committee and they're voting on things over there but - ah.....
- B: We're buying to-day just as vigorously as I ever did with you.
- H.M.Jr: You did.
- B: Yes.
- H.M.Jr: Well I mean I think to-day is the day - I mean to-day is the day, in my opinion, to make a show of strength.
- B: Very important, yes.
- H.M.Jr: And if they lick you to-day why then your - then this whole move is a failure.
- B: Yes, well I don't disagree with you.
- H.M.Jr: I mean if the - if the - if the government bond market closes tonight below Saturday closes then this whole gesture is a failure.
- B: Well now that Committee is going to be together again there this afternoon so I can get them any time and.....
- H.M.Jr: Yes and I think - I think, from the Federal Reserve standpoint, if this move is a failure I think it's

- 5 -

a terrific blow.....

B: Yes.

H.M.Jr:to the - to the prestige of the Federal Reserve System - terrific blow.

B: Yes, well I don't think you're settling this thing to-day.

H.M.Jr: Pardon me?

B: I don't think you're settling this thing to-day.

H.M.Jr: Oh yes you can - oh yes. The thing has got to be a success to-day, Burgess.

B: Yes.

H.M.Jr: And I sincerely hope, for everybody concerned, it will be.

B: Yes, well I - I feel just the same way - of course.

H.M.Jr: And, if I may make a suggestion, I certainly would do everything possible to make it a success to-day.

B: Yes.

H.M.Jr: All right, sir.

B: All right, sir. Now you're - you're in touch with those fellows over there at the Board, are you?

H.M.Jr: I just spoke to Eccles just now.

B: Yes.

H.M.Jr: All right.

B: Right.

H.M.Jr: Goodbye.

B: Goodbye.

April 5, 1937.
2:47 p.m.

H.M.Jr: Hello

Operator: Dr. Burgess.

H.M.Jr: Burgess.

B: Yes sir.

H.M.Jr: How is the market going now?

B: It's better
about - it's merely a half higher than it was
Saturday close.

H.M.Jr: Ah-ha. How much have you done over the million
dollars for us?

B: What's that? Yes, we finished that.

H.M.Jr: Yes, but how much more have you done?

B: Oh we've done very little; we had orders in;.....

H.M.Jr: Yes.

B:we had good stout orders in; I think they were
stout enough so they didn't dare to execute them.

H.M.Jr: Will you watch it the last ten - fifteen minutes
particularly?

B: Yes, indeed we will.

H.M.Jr: And as soon as.....

B: Say, I wanted to explain about that - that million
dollars; we weren't using that - moving it a
thirty-second around; we were trying to buy that
where we could.....

H.M.Jr: I see.

B:and the first we bought right out over the
counter.

H.M.Jr: Yes.

B: And the next we saw there were no bids for a minute on those 2-1/2's and we put out a bid and executed it.

H.M.Jr: I see.

B: Then we put in another bid just above somebody's else.....

H.M.Jr: Yes.

B:and had it there for a while without executing it.....

H.M.Jr: Yes.

B:and we finally exe - finished the thing with the dealer so it wasn't moving down 4/32d's at a time or anything of the sort.

H.M.Jr: All right, well I'd watch it particularly at the end.

B: Yes. Yep.

H.M.Jr: And then after you - would you mind calling up the dealers and a few banks and then calling me before four o'clock?

B: All right.

H.M.Jr: Will you?

B: Yep.

H.M.Jr: - Thank you. Goodbye.

B: Goodbye.

April 5, 1937.
3:42 p.m.

H.M.Jr: Hello

B: Yes sir.

H.M.Jr: Yes.

B: Well I don't think I found very much to add to the picture.

H.M.Jr: Yes.

B: Ah - the dealers and the banks say that they saw very little real buying;.....

H.M.Jr: Yes.

B:that it was a good deal professional;.....

H.M.Jr: Yes.

B:they get the impression that if this level were maintained for a few days that a good deal of the buyers might come in but they're holding off till they see how things look.

H.M.Jr: I see.

B: Ah - on the other hand, there's no very great pressure of offering; there are some things around - mostly the 2-1/2's.

H.M.Jr: Ah-ha.

B: Of course one reason for that is they're out of line at these prices.

H.M.Jr: I see.

B: They're a point too high on the.....

H.M.Jr: Ah-ha.

B:present market.

H.M.Jr: Ah-ha.

- 2 -

B: The closing was orderly;.....

H.M.Jr: Yes.

B:we had a couple of fellows in there at work; they - they had their bids hit some at the close; we didn't try to push it up but we tried to hold it and we did.

H.M.Jr: Above the million you did for us, how much did you do?

B: Ah - I haven't got final figures but it's about two and a quarter to two and a half million.

H.M.Jr: Ah-ha. You haven't heard anything yet about our note or bills?

B: Yes, I've got preliminary figures - I've got figures for New York.

H.M.Jr: What are they?

B: On the short bills there were 64 million bid for;....

H.M.Jr: Yes.

B:average discount rate of .58.

H.M.Jr: That's up a little, isn't it?

B: That's up a little. Short bills I don't think matter so very much.

H.M.Jr: Yes.

B: On the longer bills there are 134 million bid for....

H.M.Jr: Yes.

B:and the rate was .667.

H.M.Jr: .667.

B: That's slightly up but very little though.

H.M.Jr: Ah-ha.

- 3 -

B: And the country ought to bring both those down.

H.M.Jr: Ah-ha - all right - ah - thank you.

B: So it wasn't a great victory but we got by the day at least.

H.M.Jr: Thank you - ah - at this moment I have no suggestions.

B: Right.

H.M.Jr: Thank you.

B: All right, sir.

H.M.Jr: Goodbye.

B: Goodbye.

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April 5, 1937.
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- 2 -

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H.M.Jr: Ah-ha - all right - ah - thank you.

B: So it wasn't a great victory but we got by the day at least.

H.M.Jr: Thank you - ah - at this moment I have no suggestions.

B: Right.

H.M.Jr: Thank you.

B: All right, sir.

H.M.Jr: Goodbye.

B: Goodbye.

April 5, 1937.
3:47 p.m.

H.M.Jr: Hello
JF.T.
O'Connor: Henry, how are you?
H.M.Jr: Oh, I'm pretty well - I've been better and I've been worse. I've had about three of the worst weeks I've had almost since I've been here.
O'C: Yes, well that's just what I was thinking. They've certainly got you under pressure to try.....
H.M.Jr: Well I've put - I've reversed the pressure and I got results to-day.
O'C: Good for you - ah ha.
H.M.Jr: I - ah - sometime I'll tell you about it but.....
O'C: Well I'll be very anxious to hear about it.
H.M.Jr: But I certainly put those boys on the spot.
O'C: Good for you.
H.M.Jr: And after three weeks they've come through but it has been a hell of a fight.
O'C: (Laughs) Well I'm for you 100%, Henry.
H.M.Jr: We only got through at seven last night.
O'C: Well I knew you were working all day yesterday on it too.
H.M.Jr: Yes, but it has come through and I think it's all right but I've still got my fingers crossed.
O'C: Good. Sometime too I have a thought on those reserves that I want to mention to you too.
H.M.Jr: Right.
O'C: Henry, I think we ought to have a bank call.....
H.M.Jr: Yes.

- 2 -

- O'C:we haven't had one this year you know and we've let three months go by and we're getting one or two inquiries from State Bank Commissioners because they must make theirs.
- H.M.Jr: I think it would be fine. What do you want April one or the thirty-first of March? What?
- O'C: Just a minute Mr. Folger's here. (Aside to Folger: The Secretary suggests what should we have the 31st of March or the 1st of April? Oh so that would be better) Ah - Gus thinks the 31st would be better, Henry.
- H.M.Jr: It's all right with me.
- O'C: (All right he O.K's it - this was said to Folger)
- O'C: Thank you, Henry.
- H.M.Jr: Thank you.

~~4~~
APR 5 1937

4.30

MORGENTHAU SAYS TREASURY WILL NEED NEW CASH
BEFORE JULY 1

WASHN - SECY OF TREASURY MORGENTHAU
STATED THAT HE THOUGHT THE TREASURY WOULD
NEED NEW CASH BEFORE JULY 1 - THE SECRETARY
FURTHER SAID WHEN AND HOW THE NEW CASH
WILL BE RAISED IS STILL A QUESTION

COMMENTING ON THE RAILROAD RETIREMENT
PENSION THE SECRETARY SAID THAT THE TREASURY
HAS A NEW PLAN TO SUBMIT WHICH WILL COST
THE RAILROADS MORE MONEY

ADD FINANCING.

MORGENTHAU, HOWEVER, DECLINED TO SAY THAT THE INDICATED DEFICIENCY IN TAX RECEIPTS WAS THE UNDERLYING REASON FOR THE NEED FOR NEW BORROWINGS.

HOWEVER, HE INDICATED HIS CONCERN OVER THE GOVERNMENT'S INCOME IN THE CURRENT FISCAL YEAR WHEN HE SAID THAT THE TREASURY "CANNOT AFFORD TO LOSE" \$100,000,000 IN RAIL TAXES, NOW IMPOUNDED PENDING OUTCOME OF LITIGATION OVER THE PENSION ACT.

MORGENTHAU SAID THAT THE NEW RAIL PENSION AGREEMENT RECENTLY REACHED BETWEEN THE CARRIERS AND THEIR EMPLOYEES WAS "VERY NICE BUT IT TAKES IT (\$100,000,000) OUT OF THE TREASURY'S HIDE AND WE CAN'T AFFORD TO HAVE THAT AT THIS TIME."

UNDER THE AGREEMENT THE IMPOUNDED REVENUE WOULD BE REFUNDED, HALF TO THE RAILROADS AND HALF TO THE RAIL WORKERS.

"THE TREASURY WOULDN'T LOSE ANYTHING UNDER MY PLAN," THE SECRETARY ADDED, "AND THE RAILROAD BROTHERHOODS WOULD FARE BETTER, THAT IS, THEIR BENEFITS WOULD BE HIGHER."

ALL INTERESTED PARTIES IN THE RAIL PENSION MATTER MET WITH MORGENTHAU AT 4:30 P. M. TO CONTINUE DISCUSSIONS ON THE COMPROMISE AGREEMENT.

THE CONFEREES INCLUDED SENATOR PAT HARRISON, CHAIRMAN, ROBERT L. DOUGHTON, J. J. PELLEY OF THE AMERICAN ASSOCIATION OF RAILROADS, GEORGE HARRISON, REPRESENTATIVE OF RAIL LABOR, UNDER SECRETARY OF THE

TREASURY MAGILL AND ACTING BUDGET DIRECTOR BELL,

ASKED WHETHER RECENT DISCUSSIONS WITH THE FEDERAL RESERVE BOARD INCLUDED THE POSSIBILITY THAT THE GOLD STERILIZATION PROGRAM WHEREBY THE TREASURY PURCHASES ALL FOREIGN AND NEWLY MINED DOMESTIC GOLD AND PLACES IT IN AN INACTIVE FUND TO KEEP IT OUT OF THE CREDIT STRUCTURE WOULD BE DISCONTINUED, MORGENTHAU REPLIED:

"THERE IS NO STATEMENT IMMINENT."

BUT A MOMENT LATER, THE SECRETARY ADDED "THAT STILL DOESN'T GET ME OFF A 24-HOUR BASIS."

4/5--CS440P

ADD FINANCING.

THE SECRETARY DECLINED TO DISCUSS DETAILS OF THE CONTEMPLATED FINANCING, SAYING THAT NO DECISION WAS EXPECTED REGARDING WHEN AND HOW THE FINANCIAL OPERATION WOULD BE MADE UNTIL AFTER PRESIDENT ROOSEVELT'S NEW BUDGET ESTIMATES ARE MADE PUBLIC DURING THE WEEK OF APRIL 14.

MORGENTHAU'S ANNOUNCEMENT REVEALED A CHANGE IN TREASURY PLANS AS IT HAD PREVIOUSLY BEEN INDICATED THAT THE GOVERNMENT PLANNED NO FURTHER BORROWING OF NEW FUNDS THIS FISCAL YEAR.

IT WAS BELIEVED THAT THE DECISION TO BORROW NEW FUNDS MAY HAVE RESULTED FROM FAILURE OF TAX RECEIPTS TO COME UP TO TREASURY ESTIMATES.

4/5--CS433P

MEMORANDUM

49

April 5, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Treasury bonds opened higher and fairly active on the board, and rose rapidly thereafter in a market which was apparently largely professional, up to 11:00 A. M., gains in several of the long bonds relative to Saturday's close ranging up to $3/4$ of a point. Transactions in Treasury and Guaranteed bonds during the first hour totaled \$1,400,000, a large part of which represented trading in three long bonds and the H.O.L.C. $2\ 3/4$ s of 1939-49. Treasury bond quotations receded rather rapidly thereafter as some offerings appeared, and during the noon hour found a level generally $2/32$ to $11/32$ better than last Saturday. Market turned firmer early in the afternoon and prices held more or less steady in quiet trading up to the close when Treasury bonds were $6/32$ to about $1/2$ of a point up from last Saturday. The average advance in Guaranteed bonds was about $1/2$ point. Total turnover of government bonds on the board was \$5,681,000 against \$4,010,000 last Saturday, and \$8,082,000 on Friday. Treasury notes followed the long term market and at their best levels this morning they were $1/32$ to $6/32$ up from last Saturday and closed generally $1/32$ to $3/32$ better. The $1\ 1/2$ s of June, 1940 were up $4/32$.

Domestic bonds opened slightly higher and fairly active, and advanced moderately in the first hour. Market subsequently turned dull and prices receded from their highs. Some buying interest appeared in the last half hour and in the high grade group, both the seasoned and low coupon refunding bonds closed at their best levels, fractionally up from last Saturday. Second grade bonds finished small fractions to, say, 3/4 of a point up from Saturday.

Foreign bonds were dull and neglected all day and there were no price changes of consequence except in the Italian group which closed fractionally to 2 points up on the day.

Purchased today \$1,000,000 2 1/2% Treasury bonds of 1949-53 for account Government Life Insurance Fund and \$2,200,000 miscellaneous Treasury bonds, one-half of which is for System Account.

LMS

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

Paris

Dated April 5, 1937

Rec'd 4:18 p. m.

Secretary of State,
Washington.

448, April 5, 5 p. m. (GRAY)
FROM COCHRAN.

Features of today's exchange trading is weakness of the dollar. The market is not wide and the dollars sold by the Soviet through Lazard against sterling are enough to depress the rate. Bank of France has not taken many dollars preferring to lower its dollar buying price in advance of the declining dollar rate. Bank is offering 106.35 for sterling but not getting much since market is bidding 106.36. French rentes up but share trading inactive.

FINANCIAL PRESS continues to stress possibilities of London Sugar Conference for exploratory discussions of various economic and monetary problems. The new story today is that France and Great Britain have asked van Zeeland to organize an International Economic Conference with particular purpose of inquiring into means for removing international trade barriers.

LE CAPITAL

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LE CAPITAL pleads for conduct of French internal affairs in such manner that present gold stock of bank may not be further diminished and that control fund may acquire sufficient new resources to repay the British banking credit without resorting to Bank of France gold supply.

With regard to the final paragraph of my telegram No. 437 of April 2, 4 p.m. Gold shipments already engaged from Belgium, England and India for New York are not being stopped by Paris-American banks, but as a result of the nervousness from London-New York principals over the future gold buying price of the Federal, they are making no new commitments.

WILSON.

EA:LW_w

RAILROAD RETIREMENT MEETING

April 5, 1937
4:30 P.M.

Present: Mr. Magill
Mr. Bell
Mr. Gaston
Mr. George Harrison, Railroad Labor Executive
Mr. J. J. Pelley, Railroad Companies' Representative
Senator Pat Harrison
Congressman Robert Doughton
Mr. Latimer
Mr. Altmeyer

H.M.Jr: Gentlemen, the reason I asked you to come down here was that I had lunch with the President and I prepared a memorandum which I showed him. His original idea was that he was going to write this letter to Senator Harrison and Mr. Doughton, and he changed his mind. I mean just so you know where we're at.

Sen. Harr.: I think that's right.

H.M.Jr: He reconsidered that and decided that I should read this memorandum to you people with the hope that we could get together. But I am at liberty to say that what I am reading meets with his entire approval. But he changed his mind about doing it in the form of a letter to you two gentlemen (Sen. Harrison and Doughton), and he thought he'd rather do it this way. Now, I can read it through once and then discuss it, or read it and then discuss it by paragraphs.

Sen. Harr.: I think you better read it through without interruption.

H.M.Jr: Not very long; it's two and a half pages.

"The original Railroad Retirement Act was approved on August 29, 1935, effective March 1, 1936. At the same time there was passed a separate tax law effective as of the same date and intended to provide sufficient revenue to meet the retirement allowances. Subsequently an injunction was secured against the collection of these taxes and this suit is still pending on appeal. In the meantime retirement allowances are being paid under the Railroad Retirement Act, since its operation was not affected by the injunction suit.

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"The original tax law provided for taxes totalling 7 percent of the railroad payrolls, one-half to be collected from the employees as an income tax and one-half from the carriers as an excise tax. The budget for 1937 contains an estimate of \$134.5 millions receipts from these taxes for the period March 1, 1936, to June 30, 1937. Although the Railroad Retirement Act and the present tax law are separate and independent, the intention was that the collections under the tax law should be sufficient to care for the allowances to be paid under the Railroad Retirement Act. At the time the Acts were originally adopted there was testimony by Mr. Eastman and Mr. Latimer to the effect that the benefits would require taxes variously estimated at from 7 percent to 10.3 percent of the railroad payroll."

I want to interrupt. The reason that I haven't had any of the Social Security people or Latimer here is that it's gotten down to a question of estimates and revenue, and inasmuch as I am - I had to look after that, I didn't feel there was any sense of having them here. It just would complicate matters. If you clear the Treasury hurdle, you're all right. So I thought the less people the easier it is. But anyway, it is purely - I'm the "nigger" in the woodpile, and so you might as well see me. I mean there is no use having Mr. Latimer or Mr. Altmeyer here for that reason, because they're not objecting and we are, but purely on the revenue end. I mean it's purely a matter of revenue. I mean that's what I'm hired for and I'm trying to do my job as well as I know how.

"It is my understanding that the recent agreement between the railroads and their employees provides for lower rates of taxes, which do not reach the present level until January 1, 1949. Moreover, the agreement provides that the proposed new Taxing Act shall take effect on January 1, 1937, and that the taxes accrued under the present law between March 1, 1936, and December 31, 1936, shall be abated or refunded to the carriers and their employees. The effect of this arrangement is a net loss of revenue to the Treasury for the present fiscal year in the amount of more than \$100 millions.

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"The proposed agreement also provides that the Treasury shall take over the liability under certain private pension plans now provided by some of the railroads. This liability is estimated at \$200 millions. If the plan is put into effect, it would be necessary to ask for an appropriation of \$40 millions for the fiscal year 1938, for the purpose of meeting the liability under the private pension plans."

Harrison: 40 million for '38?

Bell: That's an additional estimate, as I understand it. They'd spend during next fiscal year or after this Act goes into effect somewhere in the neighborhood of 85 million.

Harrison: I think that's about fair.

Bell: This is an additional estimate over what is already....

H.M.Jr: All right?

Harrison: Well, I'll bring it up later.

"I am advised that the proposed taxes work out to be the equivalent of a flat tax of 6.6 percent on the railroad payrolls. The Railroad Retirement Board has calculated that the cost of the proposed railroad retirement program will be the equivalent of 7.11 percent of the railroad payrolls. The difference between the estimated proceeds of the tax and the estimated cost of the plan would have to be met out of the general funds of the Treasury. This charge has been proposed on the theory that if the railroad employees had remained under the Social Security program the retirement allowances to the present employees would have cost the Government .35 percent of the payrolls more than the taxes which would have been paid by the present employees under the Social Security Act. I am advised, however, that the Government actuaries to whom this plan has been submitted agree that the fact is that railroad employees, present and future, would pay \$840 millions more in taxes under the Social Security law than they would receive in benefits. Consequently it appears that there is no actual

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justification for calling upon the Treasury to meet part of the cost of the proposed plan, on the theory that the Social Security program is being relieved from a liability by its adoption. On the contrary, the plan should be so designed as to be self-supporting, and not to involve the Treasury in large actual and prospective losses.

"I am further advised that the calculations upon which the proposed rates of tax have been determined are based on the assumption that healthy employees will retire at an average age of seventy years. This age level is considerably in excess of that which has been used in calculating the cost of the Social Security program. If the present assumption should prove to be incorrect and railroad employees should retire at an earlier age, the effect would be greatly to increase the cost of the railroad retirement program, with the result of a further deficit.

"The proposed legislation provides benefits to railroad employees substantially greater than those provided by the Social Security Act. It is my understanding that all parties agree that the rates set in the proposed tax bill should be sufficient to pay for the proposed benefits and that other taxpayers should not be called upon to meet the cost of the proposed allowances. Moreover, if the plan is to function on a sound basis it is essential that the taxes presently collected shall be sufficient, not merely to meet the immediate liability for allowances but the much greater liabilities which will arise in the future, as the retirement plan becomes fully operative.

"The Acting Director of the Budget is now preparing revised estimates of receipts and expenditures for the current fiscal year. The figures now available show that the receipts from several of the important sources of revenue, such as the income tax, the gift tax, and the tax on unjust enrichment, have fallen considerably behind the estimates. Although there may be slight increases in some items of revenues, and collections may increase during the remainder of the fiscal year, there seems to be little doubt that the actual receipts for the fiscal year will be less than the Budget estimates. Under these circumstances, it is most important that additional liabil-

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ities for expenditures, beyond those contemplated in the Budget, should not be incurred without provision for new taxes to meet them. If the proposed legislation were adopted, there would be an immediate loss of revenue of over \$100 millions, and a prospective net loss of several hundreds of millions. Current expenditures would be increased by at least \$40 millions, to meet the liabilities under the carriers' private pension plans. I cannot approve of these additional charges upon the Treasury at this time.

"I have previously suggested that the proposed plan be made effective July 1, 1937, instead of January 1, 1937, as now contemplated. It is my understanding that the railroads have agreed not to contest the constitutionality of the proposed taxing act, which is substantially similar to the existing law, except that its rates are lower. There should therefore be no legitimate objection on their part to withdrawing their present injunction suits, and paying the taxes which have already accrued. Further, I understand that the benefits to railroad employees under the existing law are somewhat more generous than the allowances in the proposed new legislation. Hence the continuance of the existing laws until July 1 will have a beneficial rather than an adverse effect upon the retired employees entitled to allowances. I understand that all parties agree that the retirement plan should be self-supporting. Therefore, the legislation should contain provision for periodical reports by the Treasury as to the sufficiency of the tax rates to meet the estimated liabilities for retiring allowances. With these terms, the proposed legislation would adequately protect the railroad employees, and the Treasury would not be subjected to a loss of revenue, current and prospective, with which it should not be burdened. The plan, modified in these respects, has my approval."

Do you want to give Mr. Harrison and Mr. Doughton copies?

Doughton: Who's "I," the President or yourself?

H.M.Jr: I'm talking here for myself, but the President has read this and it met with his entire approval. I had lunch with the President and I am authorized to say that what I am saying in this memorandum for

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myself meets with the President's entire approval. But he wanted me to say it for him as his fiscal officer.

- Sen. Harr.: Well, the only thing, as I understand it, is the question of this money that's been collected under the present law being paid into the Treasury to go into the fund, or whether or not they be excused from paying it. I don't imagine there's any great amount of difference between the July first and the January first date. But the other seems to be the bone of the contention. Do I interpret it right?
- Pelley: Yes, except that Latimer's figures indicated that there would be no question about the sufficiency of the fund if the tax would be started on the first of January; that is, that it would be made retroactive, get in the tax from the first of January on the five percent basis.
- H.M.Jr: Well, of course, if you're going to throw Latimer's estimates against that, we have the actuaries of the Social Security, the actuaries of the Treasury, and then this independent board of which Mr. Buck is the head. And have they all signed that yet?
- Bell: Presumably have signed it, but we haven't the signed document in our possession.
- H.M.Jr: But we will have?
- Bell: We will have. It's supposed to be coming by special delivery.
- H.M.Jr: Three?
- Bell: Three. A Board of Government Actuaries....
- H.M.Jr: A Board of Government Actuaries, Social Security Actuaries, and the Treasury actuaries, all concur as to the figures, and the only person that doesn't agree is Mr. Latimer. Now, I say we can all be wrong and that's why I wanted to be sure.
- Pelley: Well, as I understood it, there's no disagreement among the actuaries as to figures, but there is a disagreement as to assumptions. Isn't that right, Magill?

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Magill: Yes, it's right in this way. All the actuaries have used the Railroad Retirement Board's figures. That is, they have not attempted to make up new sets of figures. Now, where the disagreement occurs is, as you say, on these assumptions. That is, first, on this question of whether there is any Social Security differential, if I may call it that; and then secondly, as to this age of retirement proposition.

Now, on the Social Security differential, the last I heard from Mr. Latimer - and I know this is true of the other actuaries - they all say that there is nothing to it; there just isn't any such differential, or as far as there is any it's the other way. So that....

Harrison: Who makes that statement that there is no differential?

Magill: Well, all these actuaries, as I understand, have come to that conclusion. And the last I have heard from Mr. Latimer - I don't know what may have transpired in the meantime - was that his actuary, Glenn, said that he couldn't put any figure on any such differential.

Pelley: Well, the Social Security Board put a figure on it.

Magill: Well, Altmeyer tells me the contrary.

Pelley: Well, we've got it in writing; that's all I know about it.

Magill: Well, if you refer to the same letter I do, it is to the effect that they were willing to give the railroad employees the benefit of the differential if there was any, but the last I heard from Altmeyer he said, "We're not interested in the thing any more because we figured it out and there was no differential."

Pelley: There was a mention in that letter of what the differential would amount to.

Magill: Don't know anything about that.

Pelley: 650 millions.

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H.M.Jr: Well, it's - if it's important I can get Mr. Altmeyer over here in five minutes.

Pelley: Well, we had a copy of the letter, Mr. Secretary, before we reached this agreement, and it indicated about 650 million dollars differential out there. Leveled out, it was 11 million dollars a year, and that was .53% of the present payroll.

Magill: I don't understand that, because, as I say, my last communication from Altmeyer was that Williamson, who is his actuary, had gone all over these figures with Glenn and with Latimer and concluded that there was no differential in favor of the plan at all. And consequently, he said....

Pelley: That's news to me.

Harrison: That's an important point to me. I'd like to know who's telling the truth.

(Secretary phones for Mr. Altmeyer)

Pelley: I heard you (Magill) say that in the conference up in Senator Harrison's office. That's the first I had heard that anybody questioned the differential. And I don't know who the "daddy" of the differential idea is - probably Latimer.

Magill: I think it's Latimer.

Harrison: He's told me for six months that we'd be better off under Social Security because we'd get out proportionately more than what our taxes would buy, because the age of our men on the average is ten years above the age of the great group of 26 million covered by Social Security. So he got up the figures. One time the differential amounted to as much as a billion, a hundred and fifteen millions of dollars, and then on a revision it dropped down to about 800 millions. Now, taking 800 millions and paying interest at three percent in perpetuity - that is equivalent to fifty-three hundredths of one percent of a two billion, two hundred million dollar payroll for our industry. That's how you get the fifty-three hundredths - the

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way it's been explained to me.

Now, taking the premise of this statement, Mr. Secretary, that you read - I'd just like to go over that.

H.M.Jr: Want to read from it?

Harrison: No, I think for just a minute - see if I can get this thing into a very brief statement.

H.M.Jr: Make it simple so I can understand it.

Harrison: Yes. Now, here's the situation.

Congress passed a tax act effective March 1, 1936, providing for 3 $\frac{1}{2}$ % on each or 7%. At the same time they passed a benefit measure. The railroads went in and enjoined the Government from collecting the taxes.

H.M.Jr: The railroads?

Harrison: As a result of the effort by the railroads and the courts, we notified all railway employees not to retire because the permanency of the litigation was being questioned.

The Retirement Board, through the Treasury, paid out about a million dollars in the year of 1936 in benefits. The Treasury collected \$229,000 approximately in what taxes were paid. The outgo against the income leaves the Treasury in the hole about \$761,000.

H.M.Jr: Thousand dollars?

Harrison: Seven hundred sixty-one thousand for the calendar year of 1936.

Now, at the invitation of the President, the employees and the railroads got together and after seven weeks of conference, and with the aid of the only Government department given to us, the Railroad Retirement Board, we worked out a new system to take the place of the contested legislation. We revised the benefits to reduce the cost and then we worked out a tax bill commencing the first day of January, 1937, and taking

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into consideration what is due us under Social Security. The plan was to be self-sufficient, in balance actuarially, and the Government would not be out any money.

Now, in your Budget for the year of 1937, the calendar year, you had 130 some odd millions as anticipated income, but you didn't get it.

Pelley: You mean '36.

Harrison: No, it's the fiscal year 1937. But you didn't get it and you can't get it now because the courts enjoined the collection of it. So if your financing problem is upset by not getting - by this new tax bill, it was upset before that, because you didn't get the revenue and you have to find some other way to substitute for that item. Now...

H.M.Jr: But until we lose the case in the court, we consider that perfectly good.

Harrison: Well, I'll tell you about that. I don't know a thing about the law, but we would never have sat down with these railroads to change the present law if we were confident we could win that litigation, and that was the advice the Government gave us, just in the family. That's why we sat down with them.

H.M.Jr: That's where we differ. We think we've got a good case and we're perfectly willing to wait until the courts decide it. We think we're going to get it. We think we're going to win it.

Harrison: Here's the difficulties of that. I didn't get into this situation except at the solicitation of the President of the United States. He got us into the thing. He said, "You fellows ought to get together and reach an agreement."

H.M.Jr: And on the other hand - let's understand each other - as far as you're concerned, we can call a spade a spade.

Harrison: Yes, sure. Doesn't matter now.

H.M.Jr: You're in good humor.

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Harrison: That's right.

H.M.Jr: It's easy enough to get together and take it out of the hide of the Treasury.

Harrison: Well, I certainly appreciate your frankness on that. We didn't understand we were doing that.

H.M.Jr: As far as you're concerned, you people don't get anything out of this. As a matter of fact, you're better off with the present law right as it is, because my people tell me that your men will get larger benefits than they will under the proposed plan.

Harrison: Well, that's true for the future, but not immediately.

H.M.Jr: But for the future - that your men - so what I am arguing is not against the interests of the members of your union.

Now, when it comes... There are two things. When it comes to coming to an agreement to buy off the railroads on this suit, and while this thing is on the books and our lawyers tell us we've got an excellent chance of winning it, and my job is to try to keep the finances of this country as nearly on an even keel as possible, I'm going to try to earn my salary, that's all.

Harrison: Well, I wouldn't quarrel with you about that, I wouldn't quarrel with you about that.

H.M.Jr: I don't think any Secretary of the Treasury has ever been through more difficult times than the last three years. The first money that I borrowed in November, '33, cost two and a quarter percent for thirteen months, and the last was seventeen years at two and a half. It's taken me three years to do it.

Now, I realize that if I was popular outside of the Treasury Department I should be fired. I think I've got the respect of the Treasury employees - I hope so - and I think their affection, but no Secretary of the Treasury is popular that's worth his keep. But I've got to keep fighting, fighting, fighting

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all the time to try to keep the revenue that we've got and not to have more legislation passed over and above the present Budget.

Now, as far as I can understand, at no time in this discussion did anybody ever raise the question of rates with the President.

Harrison: Nothing other than this, as I recollect.

H.M.Jr: So as far as the President's keeping faith with you gentlemen, he's kept good faith. He asked you to get together, but somebody overlooked the fact to point out to him that the Treasury would have to give up this revenue.

Now, the fact - you can take 33 1/3 % of the taxpayers of the United States file temporary tax returns, and somebody might come along and say, "Well, you can take their estimates. You don't have to fight. They say they earn so much and they give a temporary tax return. Take their estimates." But we're going to fight every inch of the way to get what we think we're entitled to under the law, and that's my job.

Harrison: I won't quarrel with you on that.

H.M.Jr: That's my job.

And I want to say a step further - which I told these two gentlemen (Sen. Harrison and Doughton) two months ago, and which I've never said before - I say the finances of this country have come to this time that if I have to do everything possible to see that this Budget is balanced - because we cannot continue any longer with deficit financing; we just cannot keep it up, I mean.

And the thing that affects your members as much as it affects anybody is that with a constant rise - increase in the cost of living, their purchasing dollar goes down.

Harrison: That's right.

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H.M.Jr: Now, the thing that I've got to do for everybody, all the citizens, is to try to keep this inflation down, try to keep the cost of living down, and one of the principal ways of doing it is to try to keep the finances of this country on an even keel.

Now, that's the way I see my job. Now, if I'm overruled, I'm overruled, but I'm going to go down with my flag flying. If my ship is sunk, all right, but I'm going to keep fighting until I am sunk, and the time has come for me to fight. And as long as the President for whom I work, who is my only boss, tells me to keep fighting, I'm going to keep fighting. Now, if I'm licked, if Congress doesn't agree with me and I'm licked, why, I'm only an appointed officer and that's all there is to it; the final say is with Congress. But as long as the President is backing me, my flag is up.

Harrison: Well now, assuming...

H.M.Jr: And I've been licked before.

Harrison: Assuming that the advice we got from the actuaries of the Retirement Board is correct, that our plan would be in balance starting the first day of January of this year, then if the Treasury got the taxes under the existing legislation, they'd have ten months of taxes for '36, about a hundred million dollars, and....

Magill: We'd collect - you see, the fiscal year ends June 30th...

Harrison: Yes, but for ten months of '36, starting March 1st and running to December.

Magill: Oh, for '36 we would have got ten months' taxes.

Harrison: If the legislation would stand, you'd have ten months of taxes for '36, which would be about a hundred million. And you paid out one million, got in \$229,000 to offset that, so you'd be out of pocket \$761,000, that's all, if our plan is in balance starting the first day of January.

H.M.Jr: Would you mind repeating that?

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- Harrison: Assuming that our plan is in balance starting the first day of January, the Treasury then would have, if it collected the taxes under the old tax law for ten months in 1936, one hundred million dollars, approximately. The Treasury has disbursed one million dollars during that ten months in benefits; they have collected \$229,000 in taxes, leaving a difference of \$761,000. So the Treasury would be to the good \$100,000,000 less \$761,000 more than what the pension plan requires, if the actuaries' figures are right.
- H.M.Jr: How about the cash figures? What about that, Bell?
- Bell: Well, a hundred million dollars is what we would have if we collected.
- H.M.Jr: Up to January first?
- Bell: No, under the present law as it now stands, at the end of June 30, 1937.
- H.M.Jr: Under the present law.
- Bell: And we would pay out - of course, there's something to come out more than....
- Harrison: Well, combining this year, there would be some more.
- Bell: We couldn't collect the hundred million without having to pay something out, because the systems would certainly run along together.
- Harrison: Yes, if it remained operative.
- H.M.Jr: You mean if the law wasn't changed?
- Harrison: If it remained just as on the books now, ultimately the plan would be in balance, taking the present tax legislation and present benefit legislation.
- (Altmeyer comes in)
- H.M.Jr: They were quoting your name and I thought you'd better answer your own argument.

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Harrison: Now, to boil the thing down as we see it, at least the advice we got in the conference and the basis of our agreement was this. The taxes plus the Social Security loading would finance the new benefit plan starting the first day of January, 1937.

H.M.Jr: Under the present law?

Harrison: No, the revised law. Therefore, it left the Treasury in possession of ten months' taxes under the old law, with an outgo of only one million dollars. And we said, "That's wrong; the Treasury has got one hundred million dollars less one million dollars outgo, or 99 million dollars profit on the transaction. And therefore let's repeal the taxes for last year and start them out on the first day of January." Now, that was the advice that we got from the actuaries: that our proposed tax plan would support itself; otherwise, we would not have made the taxes effective January 1 of this year. Now, if we have got bum advice, that's another question.

Now, just before I came down here I talked to Mr. Latimer again. Now, Glenn has finally got up his figures on the outgo and the income and he makes the positive statement that the taxes proposed and the benefits proposed will support each other until 1970.

H.M.Jr: Under which bill?

Harrison: Under the proposed bill. Until 1970 it will be in balance.

H.M.Jr: Who does Glenn work for?

Harrison: He's the actuary of the Retirement Board.

Magill: What happens after that? Have they figured it out from....

Harrison: Glenn has said he figures it will run until 1980 until it creates a deficit.

Bell: 70 years is the basis of retirement.

Harrison: He's taken the average of 67½; that is, 65 for

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unhealthy lives and 70 for healthy, giving an average of $67\frac{1}{2}$.

H.M.Jr: They don't figure on the basis of 70?

Harrison: No, it's figured on the basis of $67\frac{1}{2}$.

Magill: That's on account of the disabled people as well as the healthy.

Harrison: The assumption is that the disabled man will quit as early as he is eligible and the healthy man will quit on the average at 70; put the two together.

Magill: I didn't know that Glenn had agreed to those figures, because the last time I talked to Glenn he didn't....

Harrison: Well, that's the final word, and if there's any later figures I suggest you call him.

Magill: The figures as Latimer gave them to us was that they would carry until 1960 on that assumption, and thereafter there was a deficit each year of 30 million dollars.

H.M.Jr: Is Glenn Social Security?

Magill: No, Glenn is the actuary for Latimer. Williamson is the actuary for Social Security.

H.M.Jr: We haven't had the opportunity to see those.

Harrison: Latimer said - just gave me that statement and said I was free to inform you gentlemen about it.

Well now, there's one thing in here about 40 millions to take over the existing pensioners for the fiscal year of '38. Well now, if the liability is \$200,000,000 all told, then \$40,000,000 is too high, because the pensioner lives on an average of twelve years; now, 12 times 40 is 480 millions. And I never understood that \$40,000,000 was the cost of doing that for any year.

Magill: Well, that....

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Harrison: I don't know where you got that figure.

Bell: He got that estimate from Latimer, or somebody down the line, that there would be an estimate of \$40,000,000 right after this act was passed.

Harrison: Well, I'll tell you what that is. They'll need a deficiency appropriation of 40 millions of dollars for this fiscal year to take care of the increase in the pensioners as a result of the act going into effect, removing the uncertainty, and....

Bell: You mean just increasing the present load.

Harrison: And taking over the pensioners now on the carrier pension rolls. So that 40 million represents the two items rather than the one. That is my understanding of it; now, I may be wrong.

Magill: Of course, there again, I haven't got any calculations, as I don't need to tell.

Harrison: Well, I know the 40 million must be wrong for the present pensions. Couldn't be that much - 200 million liability. The pensioner will live twelve years retiring at 65 even.

Bell: Well, of course, the 200 million is the present value figure, as I understand it. But I can tell you we have no estimate before us for 40 million, but we understood one would be presented upon the passage of that bill.

Sen. Harr.: It seems to me you ought to have Latimer.

H.M.Jr: All right with me, but we can't get very far with Latimer, I'm sorry to say. He and I don't seem to talk the same language.

Sen. Harr.: Latimer is supposed to be an expert on the proposition that this whole thing is based upon.

H.M.Jr: (To Kieley) Get Mr. Latimer on the phone and ask him to come over right away.

As I say, he just doesn't seem to talk the same language.

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- Harrison: You see, Mr. Secretary, neither the railroads nor us were able to calculate the cost of these pensions. We took the Retirement Board, which was made available to us by the President, and then the railroads had their actuary check the figures of the actuary of the Retirement Board and they accepted them. We had consulted an actuary about it and he agreed that the benefits were as much as could be gotten out of the taxes which support them. Now, all of a sudden we find that there is a difference of opinion about the actuarial soundness of the plan.
- Pelley: Mr. Secretary, I understood from the talk we had the other day that the soundness of the plan will not be further questioned provided the railroads and the men were willing to pay in at the rate of 7 percent from the effective date of this tax law - March 1 last year to July 1 this year. Is that right, Mr. Magill?
- Magill: I think that was his proposition of making the plan effective July 1, 1937.
- H.M.Jr: (Nods yes)
- Pelley: Well, that resolves the whole thing into the question of whether or not the railroads and the men are willing to pay in at the rate of 7 percent from the effective date of the present tax law, doesn't it?
- Magill: That's right.
- Pelley: All right. Then if you - the feature of your proposal that appeals to me as being rather unsound - got something the matter with it - is that if you can get this tax under the present law up until July 1 of this year, you are willing to subscribe or waive objection at any rate to a pension plan that you yourselves say is not actuarially sound.
- Magill: Yes, with one proviso which we agreed to the other day in the first conference we had. That is, as the Secretary read in the last part of this memorandum, I think we all understand that there will have to be reports periodically of how the plan is operating and whether the allowances that are being paid and the liabilities that are being incurred exceed the amount of taxes which are being collected or which are in

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prospect. Now, on that basis you might find at the end of three years or six years or some other time, that you had to change the rate. And, as I understood it, we all agreed that such a provision of that sort ought to be in the legislation.

Now, our net position is this: All the actuaries that we have had to work on the thing have said that it would require 8 $\frac{1}{2}$ % of the payrolls, as nearly as they can work it out, to pay for these benefits, using the figures that the Railroad Retirement Board supplies. So that they think that the 7 percent rate of the present tax law is too low, as they figure it out.

Now, the Secretary's proposition was that that may be wrong, you men may be right, it may be that these railroad men will retire at a greater age than we expect, but as long as we are taking over this liability of the carriers under their present plan and as long as it looks to us as if we're going into the red in a considerable amount, that we are not justified in subscribing to the thing unless we collect a tax under the law which is now on the books and then put this thing into effect and see how it works out, and - certainly we won't be in the red immediately - readjust the thing as occasion demands.

Now, another way you can do it, if you want to - I don't know that we have ever discussed this - to come back to this differential: I think at some point one thing you can do, if you want to, is to fix this rate of tax at a percentage which will be sufficient on a pay-as-you-go basis to take into account the additional benefits which are to be given to railroad employees over those which the ordinary employee gets, and adjust the rate in comparison with Social Security accordingly. Do I make myself clear? That is, use the Social Security rate as a basis and then add to that, for the next three years or whatever period you want to take, the additional amount which would be necessary on a pay-as-you-go basis to pay these additional benefits. Now, our people figure that that rate for the next three years would be 5.6%, I think.

That's another way you can handle this. I think unquestionably there will have to be periodical adjustments of these rates - and take a look and see what our experience shows.

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H.M.Jr: Well, they were quoting you (Altmeyer) on this loading.

Magill: This differential.

Altmeyer: Oh. Our actuary thinks it is very speculative, this whole matter of figuring a differential, so speculative that he wouldn't figure it, wouldn't make a calculation.

Harrison: Is he certain that it's the other way?

Altmeyer: Well, it rises and falls. There is a differential to begin with, and it fades out, and then there is a minus differential. But he thinks it is more or less of a rationalization.

Harrison: Well, the reason I asked the question, in the memorandum the Secretary read to us is a statement, and instead of there being a differential in favor of railroad men it is the opposite direction to the extent of 840 millions of dollars.

Altmeyer: Over what period of time?

Harrison: Well, it doesn't say.

Magill: That's the present worth of entire liability.

Altmeyer: For in perpetuity?

Magill: I think so.

H.M.Jr: What they said was that you had written a letter to this effect and put yourself on record. Inasmuch as we weren't familiar with the letter, I thought you'd want to say whether you had or hadn't.

Altmeyer: Well, that was the letter we filed with you some time ago.

Magill: That letter said in substance that if there was a differential, then you were agreeable to the use of it in these calculations, but the question was "if." Have you ever been committed to the existence of a differential?

Altmeyer: No.

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Harrison: Here's the statement on page 2. "I am advised, however, that the Government actuaries to whom this plan has been submitted agree that the fact is that railroad employees, present and future, would pay \$840 millions more in taxes under the Social Security law than they would receive in benefits." So that is just the opposite of what we have been told heretofore. In other words, there would be a loading against us of 840 millions instead of a loading in our favor. That is in perpetuity; I don't know where they get perpetuity, but that is in perpetuity, some place; I don't understand how an actuary gets perpetuity.

Doughton: We'd have to see what perpetuity meant.

Harrison: The end of time, I suppose.

Altmeyer: Now the latest - the Social Security actuary says that his assistant has worked out a differential on certain assumptions, but these various memoranda that I've got from him indicate that he considers the whole matter of a differential very speculative.

Harrison: Well, isn't this the situation? Since the actuary believes it is sufficiently real to include it in his estimate of the cost, and since there is no question among any of us that the plan will sustain itself for at least twenty years at the proposed tax rates, there is nobody taking any chance on the thing. You can raise the taxes later on or, as the railroads say, without committing the workers, revise the benefits. In other words, it is the intention of both of us that the Government shall not be out of pocket in this transaction; the industry should support the benefits. Now, we've taken that position all along and that's been our record as stated before the Committees of Congress. Now, it doesn't seem to me that we ought to assume that the workers now ought to dig down and put up more than we can see is required.

Pelley: And put up a hundred million dollars here to help Mr. Bell's budget. I don't get that at all. I don't see how we are concerned with that.

Doughton: Do I understand that the railroads wouldn't agree to increase the taxes but that your (Harrison) people would agree to reduce the benefits?

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- Harrison: Well, we'll never agree to reduce the benefits if we can get any more taxes out of that. Congress will have that bear by the tail and will have to decide what to do.
- Doughton: From what they say, they won't pay any more.
- Bell: The decision will be that the Treasury stands the burden.
- Pelley: How can the Treasury stand the burden?
- Bell: It always gets stuck.
- Sen. Harr.: I understand that you agreed that - you stated in hearings - that if this wasn't a sound proposition and when they ascertained that in the course of years, you would agree to increase the taxes and make it sound.
- Pelley: Or decrease the benefits. We said we'd do one or the other, Senator. We did not expect the Government to give us any alms. If we can't have a pension and pay its way, we just won't have a pension.
- Harrison: We don't want a nickel out of the Treasury.
- Magill: Well, of course, I think the two difficulties were that.... You see, in the first place, it's going to be very hard - I think it's as Mr. Harrison just said: when the time comes, the Treasury or somebody is going to find that it has a bear by the tail. It's going to be very hard to increase these taxes, and I should say it's going to be absolutely impossible to decrease the benefits. So then you say, "Well, where are we going to come out here twenty years from now, when this thing admittedly is going to show a loss?"
- Well then, the other bad feature of that, just looking at that, would be this: We all know that the men that retire in the next year or so, or the next few years, are going to get more money than they pay in, to a very large extent. Well now, if our calculations are at all right, it will mean that this railroad retirement plan will be enormously costly to the younger

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men who retire twenty years from now or twenty-five years from now.

Harrison: You're right. We understand it that way.

Magill: And that - assuming that additional tax rates were asked for, I think you or your successor would be down here with an extremely powerful argument and say, "Here Congress proposes to tax us and the railroads more than these benefits could be bought for from a private insurance company, on account of the mistake which was made back there in 1936 and '37 in setting these rates too low. You let those fellows get off with retiring allowances they didn't pay for. Now, why should you stick us?" And the result, of course, is going to be this billion dollar deficit which we are contemplating, looking into the plan as a whole. So I don't think that you can talk about this 1962 business too lightly. It's a pretty real thing, and in calculating how this plan is going to work out, you've got to take into account the younger men as well as the fellows that are going to retire during the next fifteen or twenty years.

Harrison: Well, it's true that the young men of today are going to contribute what may be necessary to pay for the pension of the old man of today. They understand that.

Magill: Frankly, that's why this differential of Latimer's is all off. His differential - I had him explain it to me and I listened as sympathetically as I knew how - the differential is based on the excess of allowances to present employees over taxes paid by present employees. Now, there is exactly that same differential in the case of any employee under the Social Security Act. Now, all these fellows that retire the next few years will get more than they pay. So on that theory the whole Social Security program will operate at a huge loss. Well, of course, the only way that the thing balances out is by the fact that in calculating you don't take into account merely the present employees, but you take into account the future employees too.

And, looking at that, you get this - the actuaries give us this 800 million dollar figure that the Secretary has in his letter. Now, I don't know whether it's 800

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or 700 or some other figure. I do know that we submitted the Retirement Board's figures to this independent board of Government actuaries and they went over it and they came back with the proposition that the differential was not only not in favor of this plan, but it was the other way to the extent of this amount.

Doughton: May I ask this question just for information? In what way would a prospective or a possible deficit twenty years from now interfere with your financing, your budget balancing of the present? If there is no shortage now, in what way does that embarrass the present finances of the Government?

Magill: There are two ways to figure this, and all the discussion, I think, gets in trouble because you shift from one to the other. As the plan is actually set up and as it is now and as it is to be, and as I understand, as the men and the railroads want it, the tax law and the benefit law are separate, so that the taxes come into the Treasury at the present time just like income from the income tax or from the estate tax, or from anything else; it is not earmarked. And in this proposed law there isn't to be any reserve set up as such. The Treasury simply sets up - takes in so much money in taxes and is simply under an obligation to pay these benefits.

One way of looking at it is that cash-assets-and-disbursements way of looking at it. The other way is the reserve method; that is, to take into account now what you're going to have to pay in the future and levy your taxes accordingly, which is the way the Social Security plan is set up. As you know, they have reserves and they take into account these liabilities which they are now incurring for people that are going to retire in years to come.

Well now, taking the railroad retirement plan as it is now set up, as it is now on the books and as it is proposed, as I say, the taxes are distinct from the provision for allowances; and we have in the Budget, then - the only way we can do it - an item of income of 135 millions of dollars from the Railroad Retirement law. That is now on the books - been extended until the end of the next fiscal year. Now if,

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then, we don't get that money, that 134 million will be one thing that the newspapers will point to as showing that our estimates were wrong and that we've got a big deficit in the Budget.

Boughton: But you do get that money - more than you pay out - when you do it.

Magill: If we do get that money, we'll get it in effect as a reserve against a liability that we will have to pay some years from now.

Harrison: But that isn't the basis of your Budget figures now.

Magill: No, that's true. Under this plan, if all you were going to do was to levy enough revenue taxes in '37 and '38 to pay the cost of retiring allowances in that year, the rate would be less than the five percent that you propose. It would be just a little, because there are not so many in on it as yet. If you're on a pure pay-as-you-go basis, then you increase the rate steadily as years go by. Now, that isn't what we've done; that, rather, isn't what the railroads and employees have done.

Pelley: Has anybody ever explained this idea that we have of a differential?

Magill: No.

Pelley: Well, I'll explain it to you in a way that it had to be put before I could get heads or tails of what these actuaries are talking about; and when I did get it in a practical way, it seemed full of sense to me. Now, I don't vouch for these figures; they are Latimer's figures, and he's got plenty of data to support them. But anyway, the average age of railroad employees is supposed to be ten years greater than the average age of all those under Social Security - some 26 million. Well now, take a man, as a concrete illustration, 59 years of age. He works six years at a thousand dollars a year. He will have earned six thousand dollars. He and his employer together will have paid in \$150 to the Social Security fund during that six years.

H.M.Jr: Where do you get \$150?

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- Pelley: That's the rate - pay \$75 apiece. That's what they pay under Social Security into the fund.
- H.M.Jr: Oh, I see.
- Pelley: \$75 apiece in six years. At the end of six years, he will have become 65 years of age and may retire under Social Security and will be entitled to an annuity of \$210 per year for 11 1/3 years, which is the expectancy of that man who retires at 65. 11 1/3 years, at \$210, amounts to \$2373 or -4 that he gets out of Social Security; and he will have paid in, he and his employer together, \$150. So the benefit to the Social Security fund by reason of having lifted this 59 year old man out of Social Security and put him under the Railroad Retirement plan, is the difference between the \$150 and \$2373. Now, that's the story. And the more of these 59 year old men that you lift out, why, the more of those \$2373-less-\$150's you have. The actuary figured out - somebody - I can't vouch for the figures - somebody figured out that that amounts to some 650 million dollars net, or 11 million dollars a year leveled out.
- Now, if we have been - if George Harrison and I, all this group of railroad executives and railroad labor executives, have been fooled about this thing, and if we have gone over and fooled the President of the United States, it's just too bad. It's a little too late for us to find out that there's nothing to it.
- H.M.Jr: Well, why is it too late? Nothing's happened.
- Pelley: Nothing's happened, but it makes us all ridiculous, going over there and telling the President about it. It took me two weeks really to get in my head what they were talking about.
- H.M.Jr: Let me ask you this. This statement which you made - do any other actuaries of the other agencies involved back up that statement?
- Pelley: Well, I - we got it from the actuary that we were sent to. Now, that's all I'm saying.
- H.M.Jr: I know, but you've got Social Security actuaries and then you've got Treasury, and then we've gone to these

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independent actuaries.

Pelley: Well, I understood Mr. Altmeyer subscribed to that thought.

H.M.Jr: Well, he's here.

Altmeyer: I don't. No, I don't.

Pelley: Didn't we tell it to the President in this way that I am telling it?

Altmeyer: We said that the Social Security Board position was that any benefit that would be derived out of considering the railroad plan as superimposed upon the Social Security plan ought to go to support the railroad plan.

Pelley: That's right.

Altmeyer: But we had no figures at that time to show what that benefit was. Now, Mr. Latimer said there was a benefit.

Pelley: Yes

Altmeyer: Yes. Now, after that conference and after this question came up of the differential, we had our actuary go over the figures with Glenn, and he reports that there isn't any differential so far as he can discover.

Pelley: Well, of course, that doesn't make sense to me.

H.M.Jr: Well, this is terribly important, because you've been frank enough to say - I mean after all, this is your government.

Pelley: Sure.

H.M.Jr: And I'm only a hired hand. And if this thing which you've been working on and which you've presented to the President - if it should be proved to be wrong, I'm sure you're just as interested as I am.

Pelley: Why, certainly. It sort of makes us all ridiculous. Of course, I'm not the daddy of it - I'll say that - but I thought it sounded right.

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H.M.Jr: Well, I'll say right now, and I'll say it in Latimer's presence - I'll talk the same language.... But if you'll just excuse me a minute.

(Secretary confers with Magill aside)

Mr. Pelley and Mr. Harrison, I just want to make a statement. I wanted to check before I made it. The Treasury were the instigators of getting this present Retirement Act extended. I mean the President asked us to do it and we did it.

Pelley: You mean the tax act.

H.M.Jr: Yes, the tax act. And when we - Mr. Magill, at my request, being asked by the President to do this - we didn't know anything about this other thing; I want to get that straightened out.

Pelley: I understand.

Sen. Harr.: Harrison called me up and Mr. Magill was there.

H.M.Jr: I don't - we didn't know anything about that.

Pelley: Yes.

H.M.Jr: I'd like to ask this. That's what I'm coming back to - and as far as we were concerned, when we, as messengers, asked that this thing be extended, the extended law was satisfactory to us; and if you don't mind, I'd like to ask each of you gentlemen, if you would be so frank as to say, why it isn't satisfactory to you.

Pelley: Well - why, it costs us too much money, that's all.

H.M.Jr: But I mean how about you people (to Harrison)?

Harrison: Well, you see, we sponsored the legislation.

Pelley: He would say, naturally, that it is all right for him.

Harrison: And it was satisfactory to us.

(Latimer comes in)

- H.M.Jr: We go before Congress as an agent of the President and say, "Extend this law." Now, that law was all right with us. We weren't any part....
- Pelley: Well, it's all right with George and his men because he sponsored it and got it passed. I presume he'd stand for it and say it's all right.
- H.M.Jr: So it gets down to you people.
- Pelley: Why, yes.
- H.M.Jr: May I ask you a question? You don't know me very well, but I don't make any public statements about anything that happens in here unless I check with everybody. I mean I'm not a fellow that runs to the newspapers. How much more - never mind actuaries and all these things - how much more - or put it another way: how much do you think you're going to save if you can get this new law through over the law that is on the books now?
- Pelley: Well, here's the conditions as they.....
- H.M.Jr: Let's get down to dollars and cents. How much difference does it make to the railroads?
- Pelley: You take a railroad that is paying, say, 3 percent under its present pension system, all of which is voluntary.....
- H.M.Jr: You mean you're paying $3\frac{1}{2}$.
- Pelley: Well, it varies some. Some roads have pension plans now that cost them probably $2\frac{1}{4}$ % and some of them may be as high as 3% or $3\frac{1}{2}$ %. Those men that are getting that money are not under this law, so they have to pay those men, say, 3% or $3\frac{1}{2}$ % - to the voluntary pensioners - or just discontinue them or drop them, and they've got to pay $3\frac{1}{2}$ % under this law. Now, it's perfectly ridiculous to talk about a railroad paying 7% of its payroll for pensions. It's just ridiculous; they can't do it.
- H.M.Jr: But you say you can pay 5, is that it?

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- Pelley: No. No, we'll pay - we've agreed that we'll start at $2\frac{1}{2}$ and step up to 7 - that is, $3\frac{1}{2}$ %.
- H.M.Jr: But at the present the law calls for 7 and $3\frac{1}{2}$, and what you are talking about - you want 1% less.
- Pelley: No, let me get you straight on this. It's $3\frac{1}{2}$ now, and in addition to that the railroads are paying their present pensions, because the present pensioners are not under the Act.
- Doughton: You mean the men already retired that you are paying, that you couldn't bring under this law?
- Pelley: That's right.
- Magill: Another way to put that is that under the proposed plan the Government takes over that liability, which we would figure relieves the railroads of 200 million dollars.
- Pelley: No, I don't agree that the Government takes over anything. This plan that we have agreed on takes over those pensions.
- H.M.Jr: Well, would you mind, if it is a fair question....
- Doughton: How would you be paying both if the present plan takes it over?
- Pelley: We wouldn't then, but we do now.
- H.M.Jr: Well, if you don't want to....
- Pelley: I'll answer anything, if I can.
- H.M.Jr: You've got the answer. I want to know a dollars and cents difference - what it amounts to - between this so-called proposal and the law on the books. Now, how much does it make in dollars and cents?
- Pelley: Well, I think I could give you that. Under the present law, the railroads would pay about 70 million dollars.
- H.M.Jr: A year?

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Pelley: Yes.

H.M.Jr: Calendar year?

Pelley: Yes.

Bell: Under the present law.

Pelley: Yes. 7% of the payroll, of the two billion dollars. That's 140 million dollars, isn't it. They pay half of it. That's 70 million dollars.

Magill: That's right - 77, it would be.

Harrison: Two billion two.

Pelley: Now they are paying about 30 to 36 million dollars voluntarily, so there's a hundred million dollars.

H.M.Jr: Now wait - your share is 77.

Pelley: 70 - our share - if our payroll is two billion dollars, which it is - probably two billion two now. We pay half, 3½% of that; that's about 70 million dollars.

H.M.Jr: 70 million.

Pelley: Yes.

H.M.Jr: And?

Pelley: Then in addition to that we've got private pensions, or our voluntary system, which is running to 30 or 36 - 35, 36 million dollars now.

H.M.Jr: Well, call it 35. So that's 105 million dollars now.

Pelley: Right.

H.M.Jr: And under this proposed law you'd start off....

Pelley: We'd start off at 55 million.

H.M.Jr: Or saving around 52 million.

Pelley: No saving, because now we're paying about 36 and we're agreeing to step it up to 55. Because we don't recognize this law up there that they got on the statute

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books as constitutional and we don't think the Supreme Court will.

H.M.Jr: But until that decision.....

Pelley: What it really means is we're stepping up now from a voluntary pension plan that's costing us, say, the maximum of 36 million, and we agree to pay 55 million, in order to settle this question.

H.M.Jr: Well, my position is this, Mr. Pelley. If you people can convince us that this proposed new plan will pay for itself, I'll go along like that.

Harrison: There's our adviser (pointing to Latimer).

H.M.Jr: Well, he's one. Now, against what he has said there are three different groups who disagree with him.

Pelley: Well, we say this, Mr. Secretary....

H.M.Jr: See? Now, all I'm interested in is to make this thing "even Stephen."

Pelley: I haven't heard anybody anywhere say that this plan won't carry itself for a period of years. They might disagree as to the length of time.

H.M.Jr: Well, we disagree with that.

Magill: Well, that is again this question - if you figure one way it will and if you....

Harrison: Didn't I understand you to say the other day it would for at least twenty years?

Magill: If you figure it on a pay-as-you-go basis, for a period of around twenty years or some such time it will carry itself.

H.M.Jr: How do you figure pay-as-you-go?

Magill: It means twenty years from now the employees then coming in are going to have to pay rates very much in excess of what they're going to get.

Harrison: A surplus of income in the early years which will be

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used to take care of the increase in outgo in later years, and at the end of the twenty years, taking the earlier and the later, the plan will be at zero balance, according to your prediction.

Magill: That's right. And according to Mr. Latimer's own prediction, after 1962 we go in the red 30 million dollars a year, using his assumptions.

Doughton: If there is no increase in taxes.

Magill: That's right.

Pelley: Mr. Secretary, let me say this, and this is all. I'm glad to hear you say what you have just said, because I think it affords a basis of settlement. As I understand this, Mr. Latimer, we're going to pay in on the basis of a two billion two payroll 110 million dollars the first year. Is that right?

Latimer: (Nods yes)

Pelley: Now, that begins to accrue January 1, so the Government will immediately get in three months one-fourth of that 110 million dollars, won't they?

Latimer: By the end of April, yes.

Pelley: No, at the end of April they get a third of it.

Bell: It's already accrued, if you want to assume that.

Pelley: And that we agree to pay.

H.M.Jr: Just say that again.

Pelley: We agree that this new law that we are proposing shall become - the tax law is what we're talking about; you're not interested in the pensions - beginning January 1 we pay in at the rate of 5% of two billion two. In a year it would be 110 million dollars. So the Government is due a fourth of that on April 1. It's past due.

Bell: March 31 is the date it's due - would have been.

Pelley: All right, you've got that 25 million dollars to start on right there. Now, Mr. Latimer has been

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sitting over there in the Retirement Board and he's only spent a little bit of money. Now, that 25 million and the money as it accrues beyond that at the rate of 110 million dollars a year, is going to have you in the black unquestionably for a period of years. Now, we say....

H.M.Jr: Just - can you hold your thought?

Pelley: Yes

H.M.Jr: Are we - do we agree up to that point?

Magill: Yes. It won't be in the black as much as your story gives you.

Pelley: I'm not saying how much it will be in the black.

Magill: If you calculate it on the same basis as the Social Security program is calculated - that is, to try and make this thing sound on an actuarial basis - you're not in the black. But if you - I don't know how to put it - if you figure it as you....

Bell: On a cash income and outgo basis....

Magill: ...you'd be in the black for the first few years, but nobody seems to agree how many years.

Pelley: Pay in and pay out for a period of years, you're in the black.

H.M.Jr: How many years, roughly?

Pelley: Latimer says 1970.

H.M.Jr: How many do you (Altmeyer) say?

Altmeyer: I don't know.

Pelley: Probably nobody knows exactly, but it's a period of years. Now, I for the railroads and Mr. Harrison for the men say that after a period of years, if it is seen that - and we are willing to have any kind of reports that you want to to keep us well-informed as to where we are going - if we see that the Government

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is going to run into the red, then we are willing to sit around and make an agreement which will increase the taxes or decrease the benefits, and ask Congress to pass that, or amend the law. We don't want the Government to be out a cent.

H.M.Jr: This sounds too easy. Now wait a minute. What about what's happened before the first of January?

Pelley: Well, that's - suppose you hadn't had a law.

H.M.Jr: But we've got one.

Pelley: We don't think you have. Now suppose they hadn't had one.

Magill: Well, we won't have any better one under - I mean you can't quite dismiss this law, because it now is the only one on the books.

Pelley: Of course, I am much interested in what you have said here about your efforts to balance this budget, and I know it is a tough job; I know that. But we don't quite see why we should pay in 110 million dollars just to do that when it isn't necessary to pay the benefits. Certainly you're not - we don't want any aims from you - you're not expecting us and these men who work for their dollars to pay in 110 million dollars here for you to make your budget look pretty good, when you're not paying it out - you haven't paid it out. You're not going to ask us to do that. That's our reaction to what Mr. Magill has been contending for. Don't blame him for wanting to get the money.

H.M.Jr: Do you mind if I talk to these two gentlemen just for a minute in the corner? I'll make you a proposition.

(Secretary confers aside with
Magill and Bell)

We have a suggestion to make, and I want to say it's just tentative because I haven't had a chance to check this with the President, see; but on account of the kind of proposition I'm going to make - I mean

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I have a good reason to believe that it will be acceptable, although I have no way of telepathy with him.

We'll make it in two things. You people are so sure that you're going to win your suit and we're pretty sure we're going to win our suit, so the suggestion that we make to you is this: leave the present law stand until June 30th and you sue us - go ahead, see? - and we'll take our chances in the court under the present law.

Then, if Congress sees fit, we've got a suggestion to make as to a new kind of a law for three years, which Mr. Magill will outline now - for three years.

Magill: It's a proposition that I suggested while the Secretary was out of the room. We've got this disagreement as to whether there is any differential in the Social Security or whether there isn't. Well then, why not fix this up in such a way that you get the benefit of one if there is one and this washes out if there isn't. The way to do that is this, and Mr. Altmeier can check me on this: put in your plan for three years - put in a rate of tax which will consist of the Social Security tax plus an amount necessary to pay for the additional benefits which you want on a pay-as-you-go basis. Now that would mean for the next three years, as I understand, a rate of 5.6%.

Pelley: Well, no, it would be less than that. Mr. Latimer has estimated it would take 64 million dollars a year to run it.

H.M.Jr: But do you get our proposition?

Pelley: Yes, I understand it.

Magill: Of course, the rate would have to be checked.

Pelley: Well, as I understand you on.....

Magill: Make your rate consist of the present Social Security rate plus whatever is necessary to pay the additional benefits that you want on a pay-as-you-go basis.

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- Latimer: You mean, in other words, they'll pay in the Social Security taxes and then they would have to finance over and above that....
- Magill: ...what benefits they want under their own Act.
- Latimer: Benefits don't start until 1942. That means they've got to pay everything immediately.
- Pelley: Now, Mr. Secretary, I'm just wondering if you've got that - this whole picture.
- H.M.Jr: But do you get what we are proposing? And at the end of three years if the thing doesn't work, we'll....
- Pelley: This is what that means. We've got to start all over. We've got to begin once more and see if we can work out another agreement, and there's several hundred - well, there are 160, 170 railroads involved, and all of his men.

Now, I just wonder if you want to do anything toward kicking this thing over. We've been battling about this thing up on the Hill for three or four years, and you had one pension law passed in 1933 or 1934, and the Supreme Court said it was unconstitutional; then you went to work and passed another law and we're contesting that.

Now, I don't know any railroad man anywhere who has objection - any objections to giving an old railroad employee a pension. I don't know any argument against it, if there is one. We are perfectly willing to pay a pension to a railroad employee. And the railroads 37 years ago voluntarily started paying pensions and they are paying now some 30 to 36 million dollars a year voluntarily.

Now, you passed a law up there and the Supreme Court said that it was unconstitutional; and one decision - one feature of it they made very clear is that you can't pass a law giving a pension to a man who is not in the service. Therefore, the old pensioners, these fellows that have worked for us all of these years and are now on pension, could not be included in any tax law, according to the Supreme Court.

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As I said to you a while ago, it leaves the railroads in this position. They've either got to drop all these men that they have on pension, just throw them out, let them go on the relief rolls or somewhere else, or contest the constitutionality of this other law, because they certainly cannot pay 3% voluntarily and 3 1/2% by law, or some 7% probably would be the average - of their payroll. Now, the railroads, I don't need to tell you, are poor; 28% of them are in the hands of the sheriff, and there's some others that have been chasing ahead of the sheriff so long that they're getting weary, and they can't take on any added load or any more weight and keep ahead of him. Now, that's not all of them but that's some of them.

All right. With all that condition in the air and in existence, we are approached by the men and by the President to see if we can't work out something that will settle this question that has been a controversy on the Hill for three years. We said yes, we'd try it, certainly. And we got together and the men waived some of the benefits that they wanted, reduced the cost, and Murray Latimer was very helpful in working out a plan with us - at the President's suggestion, for that matter - that we have agreed to, which, as poor as we are, steps our pension expense up from about 36 million dollars to 55.

- H.M.Jr: You take off how much - take off the regular thing?
- Bell: 36 million dollars a year for their present liability.
- Pelley: Now, understand, the railroads can stop that any time they want to and dump these old fellows out, and I don't think you want to be a party to forcing any such thing as that.
- H.M.Jr: Well now, may I ask if you - as long as you're asking me one - is your position that it is this agreement or nothing?
- Pelley: Well, I would say this.....
- H.M.Jr: Because if it is.....
- Pelley: If we can't go through with this agreement, then it's

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all in the air again. We've gotten the railroads to agree to this.

H.M.Jr: You mention about all the work of going through it again, but I'm just asking you a very simple question. Have you made up your mind? I mean I'm not trying to kid you; I'm trying to be very frank, and I'd appreciate your being equally frank. Have you made up your mind that you will not go back to your people and resubmit another plan?

Pelley: No, I haven't made up my mind to anything at all. But I'm telling you that here is a plan that we worked out after many, many conferences at which the men gave and we gave something, and we worked out something that the people we were sent to by the President say is actuarially sound. Now, what's the shooting all about?

H.M.Jr: All the shooting is simply this: that we are convinced, after having our own actuaries, plus the Social Security actuaries, plus these independent actuaries, look this over, that Mr. Latimer's actuaries are wrong. Three are three different groups who have all agreed, and I think I'm not - that Mr. - what's his name, the man that works for Latimer?

Magill: Glenn.

H.M.Jr: - that Glenn is wrong. Now, all I'm trying to say is that as long as these three different groups - if it was the other way around, if they had three groups and they all said we were wrong, I'd say, "All right, I'll give in." See? I mean it just gets down to - I couldn't figure it if a fellow held a gun to my head - but there's three different groups who agree that Glenn is wrong. And I'm sorry to go over the ground again, but I think that you fellows agreed and it comes out of the hide of the United States Treasury. Now, we can't understand how Mr. Latimer gets it or Mr. Glenn gets it - comes to these decisions.

Pelley: Now, Mr. Secretary, just what's the matter with this proposition? Now, everybody agrees that there is enough money here for a period of years to carry this and you will not be in jeopardy at all, and we don't want any of your money. Now, why don't we start it?

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We say that if - when the time comes that it is apparent that it is going into the red - you will know it in plenty of time - then we will agree to either increase the rate of tax or decrease the benefits and leave the Treasury unharmed. Now, what could be fairer than that?

- H.M.Jr: There's never been an agreement with the United States Government or an agreement with the Treasury that they've ever adjusted it so the other party gets less.
- Pelley: You've never had an agreement with the railroads they didn't carry out.
- H.M.Jr: It's always been more; it's always been more. I have never seen any signs where there's been any occasion to readjust down; it's always more. I mean the whole social legislation - it's always - I've never seen the adjustment where the Treasury gets it back.
- Doughton: This is another class of people that the Government has never undertaken to pension. It's a different proposition.
- Magill: I don't see how the - I don't see how you can really argue, as practical men, that that adjustment is ever going to be made, because what you are arguing essentially is that this thing be put on a kind of pay-as-you-go basis for twenty years, or whatever it is, and at the end of that time that we either reduce the benefits or raise the rates. Well, you know darn well that the men are not going to agree to reduce the benefits; they're not very great as it is now.

Secondly, as far as increasing the rates is concerned. In the first place, you have all this possibility of litigation. Judge Fletcher told us the other day that if it was proposed to increase the rates, he couldn't agree for the railroads that they would go along. And then, anyway, what we would be asking to do is to increase the rates so that the men who would be taxed in the future would be having to pay more than they could buy annuities for from a private company. Well now, the men and the carriers are never - the men are never in the world going to agree; I wouldn't agree to the plan, you wouldn't agree to it, and no one else would. Here you've got a pension plan operated by the

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Government and you're asking men to pay more for their annuities than they can go out and buy them for from the Metropolitan Life Insurance Company. They just won't do it.

So what happens to you is that you sit down - and you know from Mr. Latimer's figures that in 1962 you're going in the red 30 million dollars; according to the figures of the three other sets of actuaries, you're going into the red sooner than that; and in any event, the amount of the red is going to be, or has a present worth of several hundred million.

Sen. Harr.: How much to 1962 do these other actuaries say we'll get in the red?

Magill: I've never seen them put a period on it. All that goes on the basis of whether there is a Social Security differential and whether the average age of 70 years is the proper figure or not. I am simply guessing, but I would say that 1950 or 1955 probably would be the earliest. Wouldn't you say so, Latimer? Suppose you didn't take your assumptions. Suppose they retired at 67½ and there isn't any differential.

Latimer: On a two billion two payroll, about 1955 is about the earliest.

Bell: Your estimates run as high as 1970.

Latimer: Yes, we have made some calculations.... This morning Glenn got a figure a good deal past 1970, but I think he's overshot the mark there.

Harrison: I made the statement in your absence, Mr. Latimer, that you had advised me today that your actuary predicts that this plan will run itself to 1970.

Latimer: As I say, he's got it past that, but it does look reasonable up to 1970 on the basis of these more detailed calculations.

Sen. Harr.: Well, how does Glenn stack up as an actuary with these other actuaries we're talking about?

Magill: I think he is well-regarded.

Latimer: One of the six men who have been certified by examination

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by all the recognized actuarial groups.

- Harrison: Who are these men who are challenging these figures? Have they got a similar standing?
- Latimer: I don't understand the actuary of the Social Security Board disagrees.
- Magill: Well, he does on the differential.
- Latimer: Well, we're not talking about that. The figures I gave have no regard to that. So on the basis of those assumptions he would not quarrel with Mr. Glenn on that.
- Altmeyer: That's right, but of course he doesn't believe that assumption of 67½ years is a safe one to take - I mean of 70 years is a safe one to take.
- Latimer: I think that assumption of 70 years isn't quite the assumption. The assumption is that healthy lives will retire at the age of 70, but the assumption also is that those who aren't completely healthy will get out before 70; as a matter of fact, the actual assumption is that 70 percent of those who attain an age of 65 will be out at the age of 70.
- H.M.Jr: Why did Congress extend the present law?
- Sen. Harr.: You mean this present law here? I know why I introduced it. Magill came up and talked to me about it; that's why we did it. We thought there was a complete understanding. We were getting reports every day saying they had an understanding, they'd agreed to it, that they had submitted it to all the railroads and some of the Brotherhoods, etc. So that's why we did it. And with the tax law running out at a certain date....
- Magill: It was going to expire on the 28th of February.
- Harrison: We actually reached the agreement on the 18th day of February, before the tax law ran out, but we couldn't possibly get it ratified before the last day of February, which was the expiration date of the tax law. At that particular time we had in mind amending the present tax law. Well, you can't amend a law after it expires, so we agreed that the strategy was

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to extend the present law and then go in and amend it. That's why it was extended.

H.M.Jr: Well, supposing the legislative and executive branches just sat tight and did nothing. Then what?

Harrison: Then everything will remain as it is, and everything is tied up in litigation.

H.M.Jr: But your men continue to draw benefits.

Harrison: Then the Government holds the bag for all it's paid out.

H.M.Jr: But your men would continue to draw the benefits, wouldn't they, and we'd wait until the court made a decision on this.

Pelley: That is, we're back just where we were before we started.

H.M.Jr: But your men would continue to get the benefits.

Harrison: The Treasury is paying them. Right.

H.M.Jr: I've got it right now.

Harrison: Doesn't that unbalance your budget that much more?

H.M.Jr: Yes, but that - I'd rather sit tight. We've got the same thing with a lot of other things that are tied up - windfall taxes and other things. I'd rather sit tight and take my chances with the Court.

Harrison: Well, you see, the objection to that, looking at it from the standpoint of the men, is that they hesitate to retire while there is an uncertainty about the permanency of the legislation. They hesitate to do that, because they don't know where they're going to get it from in the event the legislation....

H.M.Jr: But they're getting their money every day.

Harrison: Those who have retired. Many would retire who haven't retired because of the uncertainty.

H.M.Jr: Well now, as I understand it, there is no more chance of the new law being constitutional than the present one.

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Harrison: But they've all agreed that....

Sen. Harr.: They've all agreed that they won't contest the new law.

H.M.Jr: Yes, but John Smith could bring the suit, couldn't he?

Sen. Harr.: If the railroads don't bring it.

H.M.Jr: I mean a stockholder of a railroad could bring it. Am I right?

Pelley: Yes, if he wanted to.

Sen. Harr.: Well, of course, you couldn't guarantee the no-suit proposition.

H.M.Jr: I could bring the suit.

Harrison: Our agreement is that we won't bring suit. If any individual wanted to take on that....

H.M.Jr: Look, in our gold cases nobody could guarantee they weren't going to sue us on it, and....

Pelley: But the chances of that happening, Mr. Secretary, are very remote.

H.M.Jr: In other words, what we're going to say is that the law may be unconstitutional, but the railroads say that if we reduce this thing from 7 to 5, they won't sue.

Pelley: Well, if they carry out this agreement - the men gave up some of the benefits....

Harrison: Yes, we cut the benefits how much - 10 or 11 million dollars a year, Latimer?

Latimer: Yes, more than that. Around 30.

H.M.Jr: Putting it cold-bloodedly, the railroads say, "Either we get this reduction or we sue."

Pelley: Have already sued.

H.M.Jr: "Or we get the reduction and withdraw the suit."

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Pelley: That's right.

Sen. Harr.: That's in the agreement.

Pelley: That's in the agreement.

H.M.Jr: Well, we made a suggestion tonight. I don't know whether you want to sleep on it or not.

Pelley: Well, of course, it throws the whole thing wide open. We'd have to take the suggestion and get started working on it again.

H.M.Jr: Well, the way it is now, as I understand, we have made a suggestion, and under the present situation unless these actuaries or somebody can show us something different, see - if we stand to lose what we do, then the President said he'd send up a new tax bill.

Sen. Harr.: If he sends up a new tax bill, he'll have to have another champion on the Hill for it. The President and you and I, all of us, have stated we're not going to have another tax bill. I'm not going to do it.

H.M.Jr: Well, he made it very clear that any new legislation which added expenditures over and above the budget - they would have to be compensated by new taxes, and that's very clear in his January budget message.

Sen. Harr.: Well, we're in better shape now than we have been and I'll be damned if we're going to increase any more taxes.

H.M.Jr: But that's in his budget message.

Harrison: I don't think the Government can afford to say to these railroad men that they're going to make us put up money for general government expenses. I don't think you can afford to do that publicly. Maybe you can, but I don't think so.

H.M.Jr: Well, it's the other way around, Mr. Harrison. As I understand, it's the other way around. You're asking every other worker in the United States to put up the difference.

Harrison: No.

H.M.Jr: Oh yes.

Harrison: No, forgetting the loading entirely.

H.M.Jr: You're asking every other member of Social Security to pay the difference.

Harrison: No, forgetting the loading entirely, understand that this plan on the proposed tax rates will, with certainty, for at least twenty years produce enough to meet the outgo. Then why want more?

H.M.Jr: Well - I mean our people haven't admitted that.

Harrison: Yes, Dr. Magill agrees to that.

Magill: I've told you why we don't agree to that two or three times. That is, suppose it does carry itself for twenty years....

Pelley: Well, does it, Mr. Magill, or doesn't it?

Magill: We don't know. I should think, on the least favorable assumptions, it will carry itself until sometime in the 1950's - sometime from 1950 to 1955.

Pelley: Is there any date that you'll say with certainty?

Magill: Certainly, I'll take 1950. As I say, I don't know, but I'll guess on it.

Pelley: That's 13 years; you'll go that far.

Magill: Latimer says it will be 1955. Take that; I don't care - either way. Now, at the end of that time, according to any figures we have, we're going to be in the red. Well then, you've got the job of asking employees from then on to pay more than what the benefits they're going to get are worth.

Pelley: Well, I don't know that that is....

Magill: That's the way it's bound to work.

Harrison: It couldn't, it couldn't, because for every dollar the railroad men put in, the railroad management

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puts in a dollar, so it couldn't be that.

Magill: Well, but you - of course, you get your benefits for both dollars.

Harrison: So it couldn't be that.

Magill: Well, that's true. On Mr. Latimer's own figures, you show a deficit at some time here in the future. The figures that I originally had showed 30 million dollars in the red every year from 1962 on.

Pelley: Well, the question Mr. Magill - you said here a moment ago that if we attempted later to raise these taxes up higher they could go buy an annuity from the Metropolitan Life Insurance Company for less money. I don't know anything about it, but I don't believe it is.....

Latimer: It's so. It's possible.

Magill: It's possible, yes.

Pelley: It is possible?

Magill: Whenever you get to this date.

Latimer: If you assume taxes are not to be raised during that period. It wouldn't be possible at that period, because the 30 million isn't enough to produce that much difference, but if it should become twice that, you could.

Pelley: Well then, we'd have to forget the whole thing. They wouldn't want any pension law. They'd ask for repeal of the pension law.

Bell: Yes, but we have a liability under the law to pay those benefits that are provided for.

Magill: No, they couldn't ask for repeal, because these men will have paid these taxes. Here's a fellow - he's got two or three more years before he retires, and you say to him, "Now, we're going to repeal this because the thing is running very badly in the red." He's going to say, "The hell with that. Let the Government pay it. You formulated this thing back

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there in the 1930's. Why should we worry about it?"

Pelley: Well, there's no reason why the Government should pay it.

Altmeyer: May I raise the suggestion of a third alternative that may appeal to you? That is, instead of having a sliding differential in your tax rate between the taxes you pay and what is paid under Social Security - you see, you started out at a 1 $\frac{1}{2}$ % higher rate than under the Social Security, and you finally in 1949 get to a differential of only 1%; you pay 7% and Social Security pays 6%. Instead of that principle, establish the principle of a uniform differential to pay the extra benefits that you are proposing under the Railroad Retirement. Now, I don't know what that fixed differential would have to be. It might be only 1 $\frac{1}{2}$ % to start with. The rate might only be 4 $\frac{3}{4}$ % to start with, but it would get you up higher, of course, than your 7% in 1949. But it would always be a fixed differential, the logic being that it is to support the higher scale of benefits under the Railroad Retirement Act than those proposed under Social Security. It would tie it into Social Security, so that if the Congress at any time in the future changed the basis of the Social Security Act from a reserve to more of a pay-as-you-go, the Railroad Retirement Act would get the same treatment. And it would - if you are worrying about the immediate tax load on the railroads, it would help in that respect.

Sen. Harr.: It does add uncertainty to the situation, because you know those fellows are critical - were in the Presidential campaign - about changing that reserve, changing the rates.

Altmeyer: But they wouldn't ever be raised. I mean if there is any uncertainty it is in terms of reduction, and the railroads would get the advantage of that reduction if that ever came about.

Sen. Harr.: I would think it would throw the system more out of gear.

Harrison: We don't want to be tied up with Social Security directly, because I'm not so sure the Supreme Court is going to sustain that. They'd kick that one out,

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surely, if they kicked ours out.

Magill: What Mr. Altmeyer is suggesting, as I see it, is to figure out what this differential is.

Harrison: If we can keep separated, that might be worth thinking about. But to put us in that basket - no!

Altmeyer: Have you (Latimer) any fixed opinion about what that differential would be?

Latimer: It depends on what assumptions you take. On our present assumptions, the level of differential is about - between $1\frac{1}{4}$ and 1.4.

Magill: I remember seeing 1.35 somewhere - something I think you had.

Latimer: It would be right around $1\frac{1}{4}$ to $1\frac{1}{4}$.

Harrison: Well, you see, the two plans are at opposite poles. We give credit for prior service; we therefore have a high tax rate immediately. You don't begin to pay benefits under Social Security for five years, give no credit for prior service, but you load the percentage on the early earnings, which is a substitute for prior service. Now, we're just at the opposite poles in our method of approaching the same problem.

Now, I'd like to smoke out these actuaries. I'd like to know who knows what they're talking about.

Pelley: I'd like to smoke out this fellow who originated the idea - and we told the President, "It's all here. Here's a letter that says it's here."

Harrison: And I had that letter before we finished up this agreement.

Pelley: Just made a lot of monkeys out of us.

Harrison: The Chairman of the Retirement Board told us about the differential. We had a conference with the President of the United States. He wanted to know what the Social Security Board had to say about it. We therefore had a conference with the Chairman of the Social Security Board, Mr. Winant - Mr. Latimer, Mr. Pelley, and myself; it was gone into at that

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conference. Then the Chairman of the Retirement Board was referred to the actuary of the Social Security Board to see whether it was there or not. They conferred. Then the Social Security Board had a meeting with the members of the Board and they wrote us a letter and said that it was there, and they agreed to the extent that it was there we ought to have it. Then we went to the President of the United States again - Mr. Altmeyer and Mr. Latimer and Mr. Pelley and myself - and we told him about it. So that's now we got into it.

Altmeyer: No, our letter, Mr. Harrison, doesn't.....

Harrison: To the extent it is there, that we are entitled to it - whatever it is.

Altmeyer: But I mean we didn't know - we merely said that the principle was sound of considering Social Security as a bulwark for your plan. Now, if it turns out as a minus differential, logically you people ought to support Social Security.

Harrison: Well, I understood if it worked the other way we were in for it.

Doughton: Now, we're up against this proposition, if I can diagnose it and understand it. That is, you all agree - the employees agree with the railroads, all of you have agreed. Then here comes the Secretary of the Treasury and says that he can't approve it, and says he has the unqualified backing of the President of the United States. Is that a correct statement?

Harrison: I understood him to make that statement.

Doughton: Now, if that is the situation, what's the use of Congress trying to do anything? That is a difference in that way that is positive, and it is practically impossible for Congress to start any legislation with that situation. Now, that's just what it looks like to me - a bad situation to exist.

Sen. Harr.: Well, it's unfortunate.

Doughton: And it's a bad way to start out right before the

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Committee on Ways and Means, with the railroads and Brotherhoods on one side and the Treasury of the United States on the other side. That's the situation I've been trying to avoid, and I think yet that there - it should be prevented if possible; if it can't, why, I don't know what we ought to do. That's a situation that we all ought to try to prevent, if possible.

Palley: Well, that's right.

H.M.Jr: Well, we have never - we have had lots of tax things, but we have never had just a thing like this tax. We've had the situation before where people don't like the taxes, but they've gone ahead and paid them. And we've got the same thing now on the unjust enrichment tax. Congress passed a law that these various packers should put the thing back, pay it back, and we have never had any proposition - if Congress passes a law, that we should just coolly - Mr. Wallace figured there would be 150 million dollars and - that we should make a private agreement to disregard the act of Congress. That is what you're asking us to do: make a private agreement to disregard the act of Congress.

Sen. Harr.: Yes, but Henry, it must be said that the President asked these gentlemen to get together. He knew everything was going on; he knew this court action was proceeding, knew about all these difficulties we had. And he asked them to try to come to an agreement, and he says, "Use the Railroad Retirement Board and their actuaries to help you out on this proposition." So that's what makes it bad.

H.M.Jr: I know.

Sen. Harr.: And it puts the situation into this: Here the Treasury says that they have made an estimate of 130 million dollars coming in on the budget this year.

H.M.Jr: Right.

Sen. Harr.: And even though the law is tied up and even though this agreement was made at the instance of the President, and which they reported to him, and it's been stated here in conferences and they thought Social Security had written this letter saying about this differential, and so forth, now it is held up, and I don't think it's going to help the Treasury any, although I can understand why this budget was made on

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this basis, to insist that it be held up because of a bookkeeping account, because that 130 million dollars was to come in there, when the railroads and the labor people are paying the money and it is their fund and it is to be paid back in benefits to them. I think it would be much better if we'd go ahead and work it and the Treasury express its views that they doubt the soundness of the proposition and give their views on it, and leave it up to Congress on the proposition.

Pelley: Now, Mr. Secretary, I want to get this before you absolutely clearly, because you may be under the impression that we have been rather stubborn about this thing or want to be. While all other industries under Social Security are starting at 1%, we have expressed a willingness to start at 2½%. We think that's pretty good - to start on the basis of 2½% while all other industries start in under Social Security on a 1% basis, and we don't think we ought to be asked to do more than that.

Now, what I fear is that if this thing fails, and just looking at the worst that might happen, if the Supreme Court should hold that this law is constitutional, then I don't see much for the railroads to do but let these old pensioners go where they may, because the railroads simply cannot afford to pay 2½% or 3% voluntarily and 3½% under a law. That's just out of all reason; they just can't do it. And it's a voluntary thing that they're doing anyhow, paying these men these pensions, and I imagine it would be just the last thing a Board of Directors would do just before they resigned - to throw these fellows out.

Doughton: Did I misunderstand you? I thought you said if this law were enacted - the present proposal into law, that that would take care of those people.

Pelley: It does, and the men want them taken care of.

Doughton: How would that put any additional.....

Pelley: What I am saying is that if this agreement is not made into law - that's what I mean, Mr. Doughton.

Altmeyer: You could amend your benefit law without amending your tax law and take over that private pension.

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- Pelley: Well, we have to deal with the men on that.
- Sen. Harr.: Did we in the Social Security legislation exempt the railroads?
- Altmeyer: Not in Social Security, but the Railroad Retirement Act exempted them.
- Pelley: If this retirement law is declared unconstitutional, Senator, then the railroad men drop back under Social Security.
- Sen. Harr.: Well, is there anything else, Henry?
- H.M.Jr: Well, I just thought - I don't feel really that any suggestion I'd make would be acceptable.
- Pelley: Well, you see, what you're putting us up against.....
- H.M.Jr: I just sort of feel it's hopeless. I mean we've tried to present the case of the Treasury, but I just feel that it's - that I'm butting my head against a stone wall.
- Pelley: As far as I'm concerned, I don't want you to feel that way, because we'll consider anything.
- H.M.Jr: No - pardon me - you haven't made any suggestion that you even intimated that you'd be willing to go back to the railroad owners.
- Pelley: Oh yes, I'd be glad to if....
- H.M.Jr: No, there isn't any suggestion that you have made - that you have even hinted you'd go back to the railroads on this and take it up. I mean your attitude has been that this thing is settled, you've got 180-odd railroads and it's too much work to go back and you're not going to.
- Pelley: No, I didn't mean to say that.
- H.M.Jr: There hasn't been any mention that we've got even the slightest right; you've got an agreement, the President asked you to meet and you've got this thing, and this is good enough for you, so the hell with the Treasury.

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Pelley: No.

H.M.Jr: So - I mean I've got.....

Sen. Harr.: Where you fellows made a mistake was not to draw in the Treasury in your conferences.

H.M.Jr: I've had three weeks now of the Government bond market and we finally got that thing licked, and I - I mean I never had three more difficult weeks in my life. Every railroad security suffered the same way; every railroad bond went down. Look at your railroad bonds today - what happened. And for three weeks I've fought and bled over this whole Government market - rate of interest - and every single refunding has been tied up for the last three weeks - every single one. You haven't been able to do a dollar's worth of business; you can go ahead now. And for three weeks I've fought and bled. You haven't been able, or any public utility hasn't been able to do a single piece of refunding for the last three weeks, and they wouldn't have if it hadn't been for what we've done here.

But I mean I can't - I mean there isn't any suggestion. I might as well be frank; I don't get any feeling that anything I suggest here today would be acceptable, because you don't want to go back to your 180 people. You've got your agreement. Mr. Harrison's a sportsman. He's made an agreement and he's going to stick by it...

Harrison: Can't do otherwise

H.M.Jr: ...even though we suggest something that would be better for his people.

So I say let it go. And when Mr. Doughton has his hearing, I'll go up with a formal statement, and I'll submit it to the President before I go up, the way I always do, and we'll do the best we can. And if we're licked, we're licked.

Harrison: Well, I'll tell you about that. I don't like to see any disagreement here, because what is going to happen if we have a hearing is this. Here is one Government department, the Treasury, on the one side; here is another department, the Railroad Retirement Board, on the other

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side. Now, the only witness we can call at a hearing as to the self-sufficiency of the proposed plan is the Retirement Board. They were our advisers at the request and instruction of the President of the United States. Now, if the President of the United States gave us a bunch of bum advisers, we shouldn't have to carry that load.

Now, where you going to get in a public hearing, having two departments of the Government quarreling? And we took the agency the President of the United States made available to us. And if he'd have said the Treasury, we'd have been tickled to death to have the Treasury.

H.M.Jr: Well, I've got one more suggestion to make.

Harrison: Who's going to be in the hole on this? Not me.

H.M.Jr: I've got just one suggestion to make. This is the first time I've met with you gentlemen, and I've never taken the attitude that I'm the last word in a thing, and I've been wrong. Let's take one more crack at this thing before we announce publicly that we're in disagreement. I'm willing to take another chance.

Sen. Harr.: Well, I think that's better. I don't think it ought to go out to the country.

H.M.Jr: I mean this doesn't do anybody any good. Now, there's something wrong somewhere. I'll stick by the statement that I made. If you can prove to me it's "even Stephen" on this thing, I'll go along with you like that. That's all I want.

Pelley: Well, I don't know whether I can or not, Mr. Secretary, because I haven't been following the figures that closely.

H.M.Jr: Now, Mr. Bell makes a suggestion. As far as I know, these actuaries have never met. Now, let's get a room and lock them into the room and get them all together.

Sen. Harr.: That's what ought to be done.

Magill: Personally, I'd like to lock them in and leave them there.

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H.M.Jr: Repeat it through the transom and say, "You can come out when you reach an agreement."

But I'll say this and I'll stick by it. If you can get these different groups - there's Mr. Altmeyer's actuary, we have one, there's a group known as the Government Board, of which Mr. Buck is the head, and Mr. Latimer's actuary - and if those people can agree on a formula by which the United States Treasury can come out "even Stephen" I'll sign the document.

Pelley: Fair enough.

H.M.Jr: I'll sign the document.

Harrison: That's what we want.

Pelley: That's right.

H.M.Jr: How about you (Pelley)?

Pelley: That's all right with me.

H.M.Jr: You heard what I said - Mr. Latimer; Social Security; our actuary, Mr. Reagh; and the Government Board.

Bell: Board of Actuaries for the Civil Service Retirement Fund.

Sen. Harr.: Well, when you going to get together?

H.M.Jr: And if they can show me something how the United States Treasury can come out "even Stephen" I'll sign the document.

Harrison: That's all right with me.

H.M.Jr: And you (Pelley)?

Pelley: Oh, certainly.

H.M.Jr: Let me ask Mr. Latimer if that's all right with him.

Latimer: Of course, this isn't - this hasn't anything to do with an actuarial problem. It's just a question of whether or not men are going to retire at the age of 70, something which an actuary doesn't know any more than we do. If we give them certain assumptions - they

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can't come out with anything other than with what you give them to go in with. If the assumption is....

H.M.Jr: Well, what's the age they've figured on?

Harrison: 67½ on the average.

Bell: That includes the disabled.

Sen. Harr.: Well, what about this idea? Who would know more about the railroads than the people who handle this thing for the railroads? Why wouldn't it be a good idea to get their opinion as to the retirement age - from the heads of the railroads and from the heads of these labor groups.

Harrison: Well, I think we can give it to you right now. We argued that question for two days in our committee. They had seven railroad presidents on it and we had five labor men. And after giving it exhaustive consideration for two days, we were of the opinion that 67½ was a very conservative age. Now, there's many reasons for that, and if I explained them I'm sure you'd agree with them.

Sen. Harr.: You mean the average - 67½?

Harrison: That's right. Did I state it right?

Pelley: That's right.

Harrison: Now, the actuaries didn't give us that figure; we gave them that figure.

Pelley: I think Mr. Latimer is right about this. You've got to give these actuaries something to work on; then when they get in there, they'll agree. They'll agree, with certain assumptions, that a certain answer is the answer. I don't think they'll have any trouble.

Bell: I don't think they've agreed, however, using your figures. They haven't used any figures other than yours.

H.M.Jr: Well look, we said we'd do this actuarial business. Now let me make one more suggestion. Why isn't this fair - that every three years this thing be refigured?

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- Harrison: That's all right with us. Figure it every year if you want.
- Pelley: Figure it every day if you want to, so far as we're concerned.
- H.M.Jr: Put in this rate which we'll agree to and then have it in the law that this thing be refigured every three years for the next three years.
- Harrison: I don't see any objections to that at all.
- H.M.Jr: Well, I'm willing to say that I'll agree to that. If these people - let these fellows get together, let them get together right away - and then the worst can happen is we'd be stuck for three years. Is that all right with you fellows?
- Pelley: Oh yes.
- Harrison: O.K. with me.
- Sen. Harr.: And you mean a report made?
- H.M.Jr: I'll take whatever these four groups of actuaries agree on, see, with the understanding that no matter what they do, at the end of every three years, this thing will be refigured.
- Sen. Harr.: I don't understand "refigured." Do you mean that it shall be in the law that there shall be a report made as to the progress, as to the whole situation, to Congress?
- H.M.Jr: And an estimate be made - it be reestimated.
- Sen. Harr.: Every three years.
- Doughton: And as to how it has worked out.
- H.M.Jr: And how it's worked out.
- Latimer: What instructions will the actuaries be given when they work on this?
- Harrison: I don't see anything wrong with that. If it isn't sound, I'd like to know.
- H.M.Jr: There may be a surplus, there may be a deficit. But

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refigure it every three years. You (Pelley) can't object to that.

Pelley: Oh no.

Latimer: Are they going to make their own assumptions, or are they going to take the experience of the railroads? What are they going to take?

H.M.Jr: Yourman can go in there, Mr. Latimer, against these other three groups, and if Mr. Pelley and Mr. Harrison are willing to accept these three groups I am, and I'm sure I can guarantee the President is; I'll guarantee it.

Sen. Harr.: Well, as I understand Mr. Latimer, he wants to know what assumptions they'll use. Are they going to retire at an average age of $67\frac{1}{2}$, and will the actuarial computation be on that?

Latimer: Of course, if they're going to assume that, there's only one answer they're going to come out with. You know it. If they're not going to, you know what the answer is too.

Harrison: $67\frac{1}{2}$ is the basis on which we agreed.

Latimer: Well, suppose they don't.....

H.M.Jr: All I said is this: that these people go in - I don't know how they figure; I haven't seen their figures - that these three different groups, with the basis of the knowledge that they have, go in and figure and give us an answer - we don't tell them how to do this thing - what we can do for the next three years to make it come out so that the thing is self-supporting.

Latimer: Forever or just for the three years?

H.M.Jr: Forever, with the understanding that the adjustment will be at the end of three years.

Harrison: I don't see anything wrong with that.

Doughton: That's as clear as can be.

Harrison: Well, the only problem there would be if there is enough revenue for three years.

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Bell: No, no.

Magill: No, no. You want to figure whether it's going to be a sound plan, not simply pay-as-you-go.

H.M.Jr: Figure it for the whole basis, hoping that the thing is right, and at the end of three years it's refigured.

Sen. Harr.: Well, Magill, do I understand that in the actuarial figuring the assumption will be that the retirement age will be on the average 67½? These railroad people, as I understand, and the Brotherhoods, after two days of conference, agree on that. I imagine if they would agree on 65 the thing would prove un-supportable, but if it's 67½, which they say, and they ought to know their business - I don't know a damn thing about it, but I imagine there ought to be some basis on which to substantiate it.

Bell: Of course, Senator, you have a different situation after you have a retirement system. Heretofore you have had the incentive of the railroads to keep these employees on and not put them on the retirement system, because they'll have to pay a new man and also the retired man, because they have had no other system other than the pay-as-you-go from the revenue. Now when you get a separate retirement system, there will be an incentive on the part of the railroads to shove the older employees into it.

H.M.Jr: As I understand this, these people are going to go in and conduct a hearing, take all the evidence and all the benefit of the experience they've got - Social Security, what they've got; what they've got from the Government pension system; and what the railroads have - and put their brains to work and give us the benefit of their experience. I've never met a single one of them. I don't even know what they look like. They don't mean anything to me.

Doughton: Mr. Latimer, now long do you think that would probably take?

Latimer: Could take as long as anybody wanted it to.

Doughton: I know, but...

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Latimer: As far as we're concerned, we're perfectly willing.... Mr. Haas - Reagh has a good deal of our material over here already.

Harrison: Can you get us an answer in 48 hours?

Bell: I doubt that, but they're rather familiar with that.

Sen. Harr.: I wouldn't put a definite time limit, but it ought to be this week.

H.M.Jr: Make it the rest of this week.

Latimer: Are you going to get Buck down?

Magill: Yes.

H.M.Jr: Now just a minute. Doesn't Mr. Doughton or you want to make a statement?

Sen. Harr.: I think what we'll say is that we've been in a conference here discussing this matter and we've got nothing to report.

H.M.Jr: Well, will one of you say it? Either Mr. Doughton.....

Doughton: Wouldn't that perhaps give the inference that we're just deadlocked hopelessly? We might say we're making some progress.

Sen. Harr.: I think we ought to say that, but that there is an actuarial problem that we're....

H.M.Jr: Well, why not tell them what we've done? I wouldn't go into the details, but....

Sen. Harr.: You mean tell them about the actuaries of the Social Security and the Railroad Board and the Treasury?

H.M.Jr: Yes

Sen. Harr.: That they're going to get together, and they haven't had a conference all together.

H.M.Jr: Is that all right with you, Mr. Pelley and Mr. Harrison?

(Pelley and Harrison nod yes)

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H.M.Jr: Well, why not have them come in?

(To Kieley) Have them come in.

(Reporters come in)

Sen. Harr.: You boys have a hunger for news.

Q: We're hungry for something.

Sen. Harr.: Mr. Magill, go ahead.

H.M.Jr: No, you go ahead.

Sen. Harr.: Gentlemen, they've been talking about this Railroad Retirement bill. There's no definite conclusions reached except this: that the Railroad - what do you call that business? -

Harrison: - Retirement Board.

Sen. Harr.: - Retirement Board, Social Security Board, and the Treasury Department experts are to get together and try to ascertain this actuarial cost, etc., on this plan, and they'll probably make a report to the Secretary by the end of the week.

H.M.Jr: Excuse me, there's another group, a fourth group.

Bell: It's the Board of Actuaries of the Civil Service Retirement Fund.

Sen. Harr.: The Board of Civil Service Actuaries. In other words, we're trying to get some actuarial information.

Q: When you say "this plan," what plan are you referring to?

Sen. Harr.: We are referring to the proposal - this agreement between the railroads and the Brotherhoods. Now, that's about all, I suppose, that can be said. That covers it, doesn't it?

Q: Senator, has any conclusion generally been reached about what would be done with the hundred million dollars?

Sen. Harr.: Nothing has been reached except this.

Q: All right, thank you.

4.30 P.M. to 7.00 P.M. 115

April 5, 1937

MEMORANDUM RE RAILROAD RETIREMENT LEGISLATION:

The original Railroad Retirement Act was approved on August 29, 1935, effective March 1, 1936. At the same time there was passed a separate tax law effective as of the same date and intended to provide sufficient revenue to meet the retirement allowances. Subsequently an injunction was secured against the collection of these taxes and this suit is still pending on appeal. In the meantime retirement allowances are being paid under the Railroad Retirement Act, since its operation was not affected by the injunction suit.

The original tax law provided for taxes totalling 7 percent of the railroad payrolls, one-half to be collected from the employees as an income tax and one-half from the carriers as an excise tax. The budget for 1937 contains an estimate of \$134.5 millions receipts from these taxes for the period March 1, 1936, to June 30, 1937. Although the Railroad Retirement Act and the present tax law are separate and independent, the intention was that the collections under the tax law should be sufficient to care for the allowances to be paid under the Railroad Retirement Act. At the time the Acts were originally adopted there was testimony by Mr. Eastman and Mr. Latimer to the effect that the benefits would require taxes variously estimated at from 7 percent to 10.3 percent of the railroad payroll.

It is my understanding that the recent agreement between the railroads and their employees provides for lower rates of taxes, which do not reach the present level until January 1, 1949. Moreover the agreement provides that the proposed new Taxing Act shall take effect on January 1, 1937, and that the taxes accrued under the present law between March 1, 1936 and December 31, 1936, shall be abated or refunded to the carriers and their employees. The effect of this arrangement is a net loss of revenue to the Treasury for the present fiscal year in the amount of more than \$100 millions.

The proposed agreement also provides that the Treasury shall take over the liability under certain private pension plans now provided by some of the railroads. This liability is estimated at \$200 millions. If the plan is put into effect, it would be necessary to ask for an appropriation of \$40 millions for the fiscal year 1938, for the purpose of meeting the liability under the private pension plans.

Memorandum Re: Railroad Retirement Legislation - 2

I am advised that the proposed taxes work out to be the equivalent of a flat tax of 6.6 percent on the railroad payrolls. The Railroad Retirement Board has calculated that the cost of the proposed railroad retirement program will be the equivalent of 7.11 percent of the railroad payrolls. The difference between the estimated proceeds of the tax and the estimated cost of the plan would have to be met out of the general funds of the Treasury. This charge has been proposed on the theory that if the railroad employees had remained under the Social Security program the retirement allowances to the present employees would have cost the Government .53 percent of the payrolls more than the taxes which would have been paid by the present employees under the Social Security Act. I am advised, however, that the Government actuaries to whom this plan has been submitted agree that the fact is that railroad employees, present and future, would pay \$840 millions more in taxes under the Social Security law than they would receive in benefits. Consequently it appears that there is no actual justification for calling upon the Treasury to meet part of the cost of the proposed plan, on the theory that the Social Security program is being relieved from a liability by its adoption. On the contrary, the plan should be so designed as to be self-supporting, and not to involve the Treasury in large actual and prospective losses.

I am further advised that the calculations upon which the proposed rates of tax have been determined are based on the assumption that healthy employees will retire at an average age of seventy years. This age level is considerably in excess of that which has been used in calculating the cost of the Social Security program. If the present assumption should prove to be incorrect and railroad employees should retire at an earlier age, the effect would be greatly to increase the cost of the railroad retirement program, with the result of a further deficit.

The proposed legislation provides benefits to railroad employees substantially greater than those provided by the Social Security Act. It is my understanding that all parties agree that the rates set in the proposed tax bill should be sufficient to pay for the proposed benefits and that other taxpayers should not be called upon to meet the cost of the proposed allowances. Moreover, if the plan is to function on a sound basis it is essential that the taxes presently collected shall be sufficient, not merely to meet the immediate liability for allowances but the much greater liabilities which will arise in the future, as the retirement plan becomes fully operative.

The Acting Director of the Budget is now preparing revised estimates of receipts and expenditures for the current fiscal year. The figures now available show that the receipts from several of the important sources of revenue, such as the income tax, the gift tax, and the tax on unjust enrichment, have fallen considerably behind the estimates. Although there may be slight increases in some items of revenues, and collections may

Memorandum re Railroad Retirement Legislation - 3

increase during the remainder of the fiscal year, there seems to be little doubt that the actual receipts for the fiscal year will be less than the Budget estimates. Under these circumstances, it is most important that additional liabilities for expenditures, beyond those contemplated in the Budget, should not be incurred without provision for new taxes to meet them. If the proposed legislation were adopted, there would be an immediate loss of revenue of over \$100 millions, and a prospective net loss of several hundreds of millions. Current expenditures would be increased by at least \$40 millions, to meet the liabilities under the carriers private pension plans. I cannot approve of these additional charges upon the Treasury at this time.

I have previously suggested that the proposed plan be made effective July 1, 1937, instead of January 1, 1937, as now contemplated. It is my understanding that the railroads have agreed not to contest the constitutionality of the proposed taxing act, which is substantially similar to the existing law, except that its rates are lower. There should therefore be no legitimate objection on their part to withdrawing their present injunction suits, and paying the taxes which have already accrued. Further, I understand that the benefits to railroad employees under the existing law are somewhat more generous than the allowances in the proposed new legislation. Hence the continuance of the existing laws until July 1 will have a beneficial rather than an adverse effect upon the retired employees entitled to allowances. I understand that all parties agree that the retirement plan should be self-supporting. Therefore, the legislation should contain provision for periodical reports by the Treasury as to the sufficiency of the tax rates to meet the estimated liabilities for retiring allowances. With these terms, the proposed legislation would adequately protect the railroad employees, and the Treasury would not be subjected to a loss of revenue, current and prospective, with which it should not be burdened. The plan, modified in these respects, has my approval.

April 5, 1937.
5:35 p.m.

H.M.Jr: Who?
Jim
Wilson Gofffield - he is the Collector of Internal Revenue.

H.M.Jr: Yes.

W: There's a vacancy in that Congressional District due to the death of Buchanan.

H.M.Jr: Yes.

W: There are a half a dozen candidates more or less.

H.M.Jr: Yes.

W: Buchanan wanted to - not - Gofffield, if he could in his own way, to help try to bring about the election of a Congressman who would be friendly disposed to the Administration all along the line.

H.M.Jr: Yes.

W: Half a dozen running; one or two are committed; the rest of them are non-committal and some of them are against the Court.

H.M.Jr: Yes.

W: But Gofffield didn't want to do anything at all or get involved unless it was all right for him to do so. Now would I be permitted to talk to him and tell him to discreetly help if he can or any fellow; I haven't anybody in mind - some fellow who would be thoroughly reliable?

H.M.Jr: Oh sure - sure.

W: He - I didn't want to get him in trouble.

H.M.Jr: No - no - no he isn't going to go out. He's going to do it on his own time, isn't he?

W: He isn't running or he won't say anything publicly but in his own way he could move around quietly and say, "Jones is the fellow".

H.M.Jr: Sure, I appreciate your calling me, old man, and it's all right.

W: O.K.

H.M.Jr: Wilson.

Yes.

H.M.Jr: I've got all the railroad brotherhoods and that whole thing outside of my office now and the President dumped the whole thing in my lap.

W: Good.

H.M.Jr: He - what?

W: Good.

H.M.Jr: Son of a gun.

W: Why that's all right. Take some of those 58¢ dollars.

H.M.Jr: Thank you for your help.

W: He's a dumper; he dumps everything.

H.M.Jr: You're all right, Jim, I'm for you.

W: Thank you, sir, goodbye.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
FE 841.001 Georve VI/

April 6, 1937

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, with reference to this Department's letter of March 26, 1937, and to previous correspondence in regard to matters relating to the financial and economic situation in China, encloses, for the information of the Secretary of the Treasury, copies of telegrams Nos. 151 of April 5, noon, and 152 of April 5, 1 p.m., from the American Embassy at Nanking.

Enclosures:

From Embassy Nanking
No. 151, April 5, noon;
From Embassy Nanking
No. 152, April 5, 1 p.m.

RECEIVED

APR 7 1937

DEPARTMENT OF STATE

WASHINGTON, D. C.

Stat

Department of State

BU
DIVISION

FE

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

Treasury.

JR

Nanking via N R

Dated April 5, 1937

Rec'd 10:15 a.m.

Secretary of State,
Washington.

151, April 5, noon.

The departure of Dr. H. H. Kung, China's Special Ambassador to the British Coronation ceremony, with an entourage of some 35 people reported in my 135, March 25, 10 a.m. Rumors have been rife in Shanghai and in Nanking to the effect that Dr. Kung hopes, during the course of his visit, to obtain a sizeable British loan for use in South China where there are plans for railway building. These reports indicate that the Chinese hope for a loan of one billion Chinese dollars and state that the British demand retirement of the loan within fifteen years and security additional to the revenues of the new loans. To provide security the Chinese expect revenue increases as follows: 45,000,000 from income tax, 30,000,000 from increased salt revenue and 10,000,000 from increase in consolidated tax.

JOHNSON

KLP

JR

Nanking via N R

Dated April 5, 1937

Rec'd 9:30 a.m.

Secretary of State,
Washington.

152, April 5, 1 p.m.

Our 135, March 25, 10 a.m., and 133, March 24, 3 p.m.

One. Reportedly because of illness Vice Minister of Railways T K Tseng did not accompany Kung and party which departed Shanghai April 2, but will go later. According to a confidential communication Foreign Office sources he is considered a very important member because of expected financial conversations in London at which, this report states, the Chinese Republic hopes to obtain a large loan chiefly for railway construction. Inspector General of Customs Maze also did not accompany delegation but will reportedly proceed via United States.

Two. Sent to the Department, by mail to Peiping, Shanghai, Tokyo.

JOHNSON

WWC

April 6, 1937.

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Chairman Eccles and Governor Ransom had lunch with the Secretary at 1 o'clock. Mr. Taylor and Mr. Upham were there also.

There was some discussion of open market operations by the Federal Reserve yesterday and today, Mr. Eccles stating that the System bought \$5 million of bills yesterday and authorized the purchase of \$15 million bills today in addition to some bonds. He said the committee feels that it is important to assist in the distribution of the current offering of Treasury bills.

Mr. Morgenthau said that the market seemed to be pretty steady. He remarked that Mr. Burgess had been pretty "sick" at the opening of the market but felt much better around noon.

Mr. Eccles said that Mr. Burgess was apparently worried by the press reaction to the Secretary's statement at the press conference yesterday about new financing.

Mr. Morgenthau said that there was very little comment about him or the Treasury in the press -- that he was merely an innocent bystander during the action by the Federal Reserve. He referred to the fact that some of the papers recounted the various statements made recently by Mr. Eccles.

Mr. Eccles said that it is absolutely essential that the President balance the 1938 budget. He hopes to see the President shortly to impress that upon him and he suggested that Secretary Morgenthau also be emphatic in his insistence upon that course.

Mr. Morgenthau said that while he thought that would be fine and "the answer to a maidens prayer" he cannot press the President beyond a certain point. He indicated that there are some evidences that the President is impressed with the necessity for a more careful

check on budget figures. He quoted Harry Hopkins as saying that the President is getting "tough" on money. He said that the President wants him (the Secretary) right by his side on Friday when Herbert Lehman and the other Governors come to discuss relief. He also told something of the meeting last night in the Treasury on the Railway Retirement Act and stated that the President had authorized him to say and that he did say that if this Act took \$135 million out of the budget, a new tax bill would go to Congress this session. He said that Pat Harrison commented that if a new tax bill came up this session he was resigning as Chairman of the Senate Finance Committee.

After this discussion Mr. Eccles and Mr. Ransom expressed themselves as feeling very much better.

Mr. Eccles said that he was now able to smile and that he felt much better about the action which the Federal Reserve had taken. It seems to him more justifiable if the balanced budget is in sight.

Mr. Morgenthau digressed to remark that he is 98% through with *Gone With The Wind*. He and Mr. Ransom discussed the book for some minutes. Mr. Ransom, who is from Atlanta, told something of the way the book was written and discovered for publication and commented that historically it was substantially accurate.

Mr. Taylor asked Mr. Ransom what he and George Harrison were shaking their heads just like two ^{big} elephants at lunch time yesterday, but Mr. Ransom was unable to remember just what they were shaking ^{at} their heads at/the time but agreed that the elephant description was a good one.

Mr. Eccles said that the Executive Committee of the Open Market

Committee is still in town and that he has the same old argument each morning with George Harrison at length.

The discussion now seems to center around what is an orderly market. Theoretically, Mr. Eccles said, a Government market that went down indefinitely a quarter of a point a day is orderly and conversely a bill market which goes up a quarter of a percent a week is orderly, but certainly no one wants to see either development.

Mr. Morgenthau said that he is not going to offer any extra bills next week and perhaps not for a second week.

Mr. Taylor thought we should not drop out for more than one week.

Mr. Eccles said he hopes that Mr. Bell will shift some Treasury funds from the Federal Reserve banks to the commercial banks, but agreed that if we stay out of the bill market for a week or two the Federal Reserve account will run off pretty rapidly anyway. He referred to the Saturday and Sunday meeting of the Open Market Committee. He said that if they had had a fourth alternative -- to do nothing -- he feels that the majority would have been for that.

Mr. Ransom, on the other hand, felt that before the meeting ended the majority were in favor of doing something. There seemed pretty general agreement in the Open Market Committee, it was stated, against cancelling the May 1st increase in reserve requirements.

Mr. Morgenthau said he agreed that was the least desirable thing to do.

Mr. Ransom said he favored action by the Treasury to deposit gold certificates.

Mr. Morgenthau said he expected the committee to request the Treasury to do that.

Mr. Eccles said he thought such action would have been interpreted as the Treasury working against and in conflict with the Federal Reserve.

Mr. Upham suggested that the action taken might be interpreted to the advantage of the Federal Reserve System as constituting the taking of the Treasury out of a hole by the Open Market Committee.

Mr. Morgenthau said that no one had written that interpretation.

Mr. Ransom said that the statement issued by the Federal Reserve was a "Missouri compromise" which did not please anyone but came closer to pleasing everyone than most anything else could have. He said the committee didn't understand it and he couldn't see how the public could.

Mr. Morgenthau told Mr. Eccles that he should cheer up and not take the situation too seriously. He advised him not to mind day-to-day situations -- he said on some days the market would be up and some days it would be down but a month from now it would be stabilized and that looking back we would be glad that the action had been taken. He told Mr. Eccles that there were some people in Washington and New York who had hoped for a split between the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury but that he had felt that no such split could or should occur.

Upm.

OFFICE CORRESPONDENCE

DATE April 9, 1937.

CONFIDENTIAL FILE

SUBJECT TELEPHONE CONVERSATION

L. W. Cooke

ETH BANK OF HOLLAND.

I called Mr. Bolton at 11:50 today. He volunteered the information that he had just completed the covering of his recent dollar operation with the Argentinians. At the moment, he said, he was trying to convert some of the dollar purchases of the Bank of France and the Netherlands Bank into gold in the London market. This would prevent a certain amount of the gold now available (including the Russian) from going to New York. Was this satisfactory to us? I replied that it seemed to me that was one hundred per cent satisfactory.

Bolton then explained at length how the Russian gold was shipped to London and how it was sold there: It was shipped from a port on the White Sea in small boats of from two to three thousand tons - the Russians seemed to have mobilized the largest portion of their merchant marine; the Russian soldiers did the loading; the boats, carrying about £2,000,000 each, went up the Thames to London, disembarked there and went back to Russia empty. There was a constant stream of these boats to London and back again. The total amount involved in these Russian shipments, they figured, in the neighborhood of £40,000,000. Upon arrival of the gold, which was very high grade, in London, the Moscow Narodni Bank had authority to sell it at a dollar price; this they did by banking it all around the market, getting at times prices as high as 24.79 and 24.80, due to the fact evidently that some of the assembly companies, the Bernsteins line and the Dutch line, for instance, were allowing all kinds of rebates. I inquired, if people were bidding as high as all

OFFICE CORRESPONDENCE

DATE: April 6, 1937.

CONFIDENTIAL FILE

L. E. Kroke

SUBJECT: TELEPHONE CONVERSATION

WITH BANK OF ENGLAND.

- 8 -

that, how was it possible that gold could be fixed in London at times below 24.77 or even below 24.76. Bolton thought the simple explanation was this: that in view of the weaker tendency of the dollar noticeable during the last few days, the traders had insisted on a small margin of safety below the 24.77 price, figuring that if they got any gold at fixing they would, in view of the earlier tendency of the dollar, have to sell the resulting dollars at a sacrifice. He did not think that these lower gold prices were indicative of a general anticipation in the London market of our reducing our price for gold. As far as he could find out, it was only the American banks that had any feelings about this gold price at all. Everybody else seemed to take no notice of the situation. I asked what his personal thoughts were in the matter. Bolton replied he did not see how he could have any ~~opinion~~ in the face of the fact that higher or lower gold prices depended upon the decision of a single individual.

I mentioned that there was some gossip here to the effect that the British Fund was so full of gold that it would soon have to make a transfer to the bank. Bolton replied he did not think we would see anything very startling done.

We discussed briefly the question of repatriation of French funds, which Bolton again said, he thought were something in excess of three or four hundred million pounds for the London market. If capital were to go back to France, a loss of that amount would improve the picture and would at once give it a totally different aspect. Such

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 6, 1937.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KnakeBANK OF ENGLAND.

* 3 -

a repatriation, he thought, everybody would welcome.

He inquired about foreign investments in Wall Street and expressed the thought that, according to information available there, such foreign investments in American securities had stopped very abruptly. I replied that that had been the case about two weeks ago when, for the first time this year, sales exceeded purchases, but that since ^{then} there had been a further reversal.

LWK:KMC

RECEIVED

APR 7 1937

FEDERAL RESERVE BANK
OF NEW YORK
100 WALL STREET
NEW YORK, N. Y.

LMS

GRAY

Paris

Dated April 6, 1937

Rec'd 4:55 p. m.

Secretary of State,
Washington.

454, April 6, 5 p. m.
FROM COCHRAN.

Paris exchange market fairly active. French control intervened at opening to take all dollars offered and brought rate up from $21.66\frac{5}{8}$ to $21.68\frac{1}{2}$. Sterling also strengthened and some speculators were undoubtedly caught short. French rentes were down and share market was weaker. Today was the last day for payment of national defense loan subscriptions; money was very scarce; many subscribers had to seek assistance from Bank of France borrowing on other securities. Understand arrangement has now been effected between Treasury and Bank of France whereby latter is taking over (with a penalty charge) or canceling subscriptions which cannot be otherwise financed.

French financial press welcomes all rumors of international conferences which might conceivably help this country out of its financial and trade difficulties.

END OF SECTION ONE

WILSON

SMS:EMB

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 454 of April 6, 1937, from the American Embassy, Paris.

This afternoon I had a telephone conversation with Jacobsson at Basel. Jacobsson had had a talk with Marcel Van Zeeland, brother of the Premier, and other resident BIS officers with regard to the report that the Belgian Premier had been asked by Great Britain and France to study the outlook for lowering trade barriers and the possibility of an international conference on the subject. I reported the interest of Van Zeeland a few months ago in either influencing the United States to take the initiative in calling such a conference, or taking the lead himself. It is the opinion of my Basel friends that the present public announcement has no new significance.

After the Belgian King's visit to London, and in view of Van Zeeland's political race against Degrelle, the present is an opportune moment to stress the international esteem in which Van Zeeland is held as an economist and statesman, and the good relations which Belgium enjoys with the two other powers. Basel thinks that while the present reports may constitute an indication of a laudable move in the right direction, the immediate purpose is to influence the internal political situation of Belgium. It expects no more results in the way of an early world economic conference from the Belgian move than it does from the over-publicized sugar meeting in London at the present moment.

April 6, 1937

H.M.Jr. called the President. "I just wanted to report that everything is going along pretty well. The only new thing is that sterling is practically 4.91 and we have about 60 million dollars worth of gold in London and I thought I might talk to them about moving a little over there. We have been waiting for just something like this. A reported rise in sterling is another inflationary move.

"I am going over this afternoon to the Jefferson Island Club and I will let Naval Communications know where I will be in case you should want to reach me. "

The President told H. M. Jr., that Governor Lehman was coming to Washington on Thursday to attend the "Relief" meeting and H. M. Jr., reminded the President that he thought McIntyre had set the meeting for sometime after Cabinet on Friday.

The President also told H. M. Jr., to have a good time at Jefferson Island.

GROUP MEETINGApril 6, 1937
9:30 a.m.

Present: Mrs. Klotz
Miss Roche
Mr. McReynolds
Mr. Oliphant
Mr. Taylor
Mr. Gibbons
Mr. Upham
Mr. Gaston
Mr. Magill
Mr. Haas

H.M. Jr: Good morning.

Miss Roche, you better get a pencil and paper.

Roche: I beg pardon, sir?

H.M. Jr: Better get a pencil and paper.

I'm sorry, but the conversation that I had with the President was one-way. He was telling and I was listening, and inasmuch as I didn't know anything about what he was talking about, I couldn't argue with him. But he was giving me a lot of answers to things that you and Dr. Parran had taken up.

Roche: Dr. Parran saw him yesterday. I reported it to you.

H.M. Jr: You were with him?

Roche: No, I wasn't there.

H.M. Jr: Then you know as much as I know. Well, any way, I couldn't argue about it.

Cancer--

Roche: Yes, sir.

H.M.Jr: I mean this is an edict.

Roche: Yes.

H.M.Jr: This is an edict. The President says three hundred thirty-three and a third thousand dollars a year for three years, or a total of a million dollars - where's Bell? - for three years for research only.

Roche: That is the bill as it has been introduced by Senator Bone and signed by all the Senators. It's gone to committee.

H.M.Jr: Is that a million dollars for three years?

Roche: Yes, that is as it's introduced, sir.

H.M.Jr: But forbid the use of any money being used for outside treatment.

Roche: Well, I'm not quite sure - are you?

H.M.Jr: I'm talking cancer.

Roche: Are you talking about the bill as it's introduced?

H.M.Jr: I don't know a thing about it. I'm just telling you what the President said.

Roche: There's a bill introduced and we are substituting a bill which provides treatment. This has been introduced by Senator Bone.. It's been before the committee and at their request our doctors have worked with Mr. Wenchel and Mr. Oliphant's office, and have helped them work out the provisions. It's a million dollars as it stands for three years; it will be more when we get through with it.

H.M.Jr: But no money for outside treatment.

Roche: That is as it's originally introduced.

H.M.Jr: Used for experimental purposes in Government hospitals.

Roche: In Government hospitals.

H.M.Jr: But he was very emphatic - no outside.

Roche: Emphatic that he liked it that way or that it shouldn't be that way?

H.M.Jr: Emphatic that no outside persons be treated.

Roche: That it should not be permitted to be used for that?

H.M.Jr: Yes, that it be used in Government hospitals.

Roche: I didn't know that Parran talked cancer to him.

H.M.Jr: Syphilis. Four million - using eight million as your base, over and above the eight million, increase it four million, then eight, and then twelve. Where's McReynolds? You (McReynolds) can repeat this to Bell, you see. That's for educational purposes and to eliminate chronic cases. At the end of three years, have it distinctly understood that they are going to turn the whole thing over to the states and the Government is through. In other words, not a continuation - continuing program of 25 million a year, see? You go four, eight, and twelve, and then the Federal Government is out. I mean I'm only repeating word for word what he says and, as I say, not knowing anything about it.

Oliphent: That is an average base for three years - four, eight, and twelve.

H.M.Jr: Four, eight, and twelve over and above the base of \$8,000,000. And his philosophy is this: That we, the Federal Government, can't take care of all the syphilitic cases in America permanently, any more than we could take care of all the cases of diphtheria. He figures that there are about 10,000,000 floating cases; we can try to correct that and then stop. Of course, I told him that they wouldn't stop then, but he says it must definitely stop.

Roche: And the cancer is one million for three years.
H.M.Jr: For three years.
Roche: And it's purely for research?
H.M.Jr: Purely for research.

And then the third and last thing, on which the announcement should be kept extra confidential, and Wayne Taylor can handle this. The President says that when he was Governor of New York he bought some radium and at that time he thought he paid 40 or 50 thousand dollars an ounce - wasn't quite sure. He understands Belgium has some radium that they are willing to sell for \$30,000 - gram, I mean. And the thought was that we might take some Belgian radium and let them pay off the principal of their war debt with it.

Roche: Yes, that was suggested a year ago. Dr. Cummings brought it up in staff meeting, took it up with Mr. Coolidge I think.
H.M.Jr: The President liked the idea that you (Taylor) play with it with the State Department and check what he paid in New York State.
Roche: This bill would provide, as it is to be amended, for approximately \$2,000,000 for radium purchase.
H.M.Jr: Well, on this basis, it would be just a cancellation of so much of the principal. It wouldn't take any appropriations. I mean it would be a war debt.
Roche: If he's going to rule out treatment, you won't need much radium.
H.M.Jr: Well, you'd lend it.
Roche: Yes, lend it.
H.M.Jr: You could lend it. What?
Roche: That's what we planned to do under the treatment program.

H.M.Jr: I'm absolutely cold on this, as I say, and he just - one, two, three, and he had it all written on a paper, and I wanted to get on railroad retirement, and he kept saying, "No, I'm not through yet," so I wrote down as he read.

And Mac, would you look up for me about Collectors of Internal Revenue and Collectors of Customs and see - the President is under the impression that their terms expire at the end of four years.

Gibbons: Internal Revenue, they do not.

McReynolds: No term on Revenue.

Gibbons: Jim Farley asked me for that. He must have spoken to him and I have already given it to him; he's going to talk to the President about it.

H.M.Jr: I did have this that Miss Switzer gave Mrs. Klotz.

Mrs. Klotz: It came in just a little while before he went over (to Miss Roche).

H.M.Jr: I can't do this outside the office, but I got to do this inside the office. I want to read my morning paper.

"Open market - contra. Of the several things about the Federal Reserve's open market policy announcement which bankers here did not like, one of the most important was the indication it gave that Mr. Eccles was still clinging, with hardly praiseworthy stubbornness, to the idea that central bank action control a boom and low interest rates were not incompatible. A short while back Mr. Eccles was saying confidently that long-term interest rates would remain low in spite of the increases in reserve requirements and the prospective hardening of short-term rates. When confronted with positive evidence recently that long-term rates are not set apart in a water-tight compartment, immune from the influences which affect

short-term rates, Mr. Eccles, instead of admitting his basic error, changed his credit policy instead."

Oliphant: Who wrote that?

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

"Wall Street thought that it had seen the most curious of all central banking freaks in 1929 when the bank rate was raised and the bill-buying rate lowered. But the contradiction apparent in the earlier policy is surely no greater than the current Federal Reserve program of taking away excess reserves by raising reserve requirements with one hand and handing reserves back to the banks with the other hand by buying Government securities. The system, it is felt here, should really make up its mind what it wants - and make it up irrespective of the Treasury's needs of the moment."

He just spoiled my whole morning. What?

Taylor: The writer doesn't appreciate that lowering the reserve requirements is a clumsy instrument.

H.M.Jr: The other thing is this: "Few Wall Street bankers have taken any stock in Mr. Eccles' idea that it was possible to have firmer short-term money rates without long-term rates being affected. So long as low long-term money rates are considered sacred and inviolable, bankers here do not believe that the Federal Reserve System can exert its full authority to impose restraint on a boom."

But the thing, as you know, as I said to you - how long would it take financial writers to catch on to the fact that you can't control - say, let short-term money rates go up and have no effect on long-term rates. But I'm awful glad that Morgenthau isn't mentioned. (Hands paper to Oliphant)

Isn't that interesting? We don't enter in the picture at all - just the innocent bystander. It's all right. What?

Gibbons: (Nods yes)

H.M.Jr: You people know what we've been through.

Miss Roche, to help you out in this, whatever that is - the predicament - I would suggest that you keep Mr. McReynolds and Mr. Oliphant informed on the legislation.

Roche: We have done that, sir, with Mr. Oliphant. We are not proposing anything on cancer at all ourselves. Sen. Bone and Congressman Maverick simply requested some informal assistance. We immediately contacted Mr. Wenchel, and with his assistance made some suggestions on the bill they had introduced.

H.M.Jr: Well, does McReynolds know anything about it?

Roche: No, we haven't talked to Mr. McReynolds about it. We were going to, of course, but it hasn't cleared yet with Mr. Wenchel and we were going then

H.M.Jr: But if you don't mind, I think - really I think - Mr. McReynolds is my administrative officer. Now, I can't be reached, I'm doing finances, but I don't think there is any excuse for McReynolds not knowing about it. And then it comes up to Bell. I wonder if it has gotten to Bell at all.

Roche: No, sir.

H.M.Jr: It's just the way I don't like Treasury to do things. I mean right up and it comes back. See? Now you wanted that million dollars for the flood.

Roche: Yes, sir.

H.M.Jr: Remember? It went through the regular, normal way, and we got it for you, didn't we?

Roche: Yes, sir.

H.M.Jr: Until I got into it I don't think you could have gotten it. But it went through regular, normal

channels.

- Roche: There hasn't anything at all been done on this yet. Friday afternoon we had this conference with Mr. Wenchel.
- H.M.Jr: But it's gone to the President though and he reads off this whole list of instructions, and I just sit there absolutely dumb - not dumb, but dumb with my mouth and dumb with my brain.
- Roche: Nothing has cleared from us at all. It is still in the very first stages. And it wouldn't officially clear any way. It was just one of those informal conferences.
- H.M.Jr: Well, it's finished now. The President has issued his orders.
- Roche: Well, I think some of the Senators must have been talking to him about it.
- McReynolds: The Surgeon General was there.
- H.M.Jr: No, the Surgeon General was there.
- Roche: I knew he was going to discuss syphilis but I didn't know that cancer was coming up. I didn't have the remotest idea it was going to be discussed.
- H.M.Jr: I don't know whether Bell knows a thing about it, or whether the bill
- McReynolds: Probably not.
- H.M.Jr: Do you have anything, Mac? I'm going away right after lunch, be gone until Friday morning - no telephone.
- McReynolds: You told Harold you were - at least he told me
- H.M.Jr: What about it?
- McReynolds: Chicago.
- H.M.Jr: Oh, sure.

McReynolds: Yes.

Oliphant: I'll have those three things.

H.M.Jr: (To McReynolds) It's very easy. Well, I'll talk to Harold.

McReynolds: He wants to talk to you. I don't want to do it.

H.M.Jr: You don't?

McReynolds: No.

H.M.Jr: You don't want to let him go?

McReynolds: I don't want to send anybody there until we send up all 15 of them.

Mrs. Klotz: What about Wallace's thing?

McReynolds: Oh, that thing. I do want to get something. I want to get your clearance on that Wallace letter about Procurement.

H.M.Jr: Well, there was nothing to do.

McReynolds: No, I want to go ahead with the investigation. I'm not satisfied.

H.M.Jr: Well, go ahead. But you didn't say in the letter "Should I go ahead?" You read the letter. I read the letter twice, and it just was a report.

McReynolds: Report of what we were going to do. We're going to fire two guys, but I want to find out what somebody else didn't find out about in their own organization before it got to that point.

H.M.Jr: All right.

McReynolds: And so I'm having Irej, with your approval

H.M.Jr: What did these two guys do?

McReynolds: Well, one of them, the only thing - instead of working for the Government he worked for

the people who sold a lot of land and promoted that thing and got himself \$13,000 commission last year for selling it. And he sold it mostly to Government employees. He capitalized on his contacts with these other people and he just thought he'd get away with it.

The only other one - the thing we got against him - one of the other men, is an irregularity in the letting of contracts.

H.M.Jr: Well, both things, aren't they - shouldn't they go to prison for things like that?

McReynolds: Well, one of them we may be able to get criminal action on. Of course, they're following that up.

H.M.Jr: Well, listen, all I can say is that in both cases you can't be too strict to suit me. It's just the kind of thing that I abhor.

McReynolds: These two fellows are going out.

H.M.Jr: Go just as far as you want.

McReynolds: The point is it's going to run us right into the Procurement organization, the Supply Division, because I want to have an answer why a man should let a contract the day he got the bid, before other bidders got their proposals in, and that could get through and a couple hundred thousand dollars be spent on it without somebody challenging that procedure.

H.M.Jr: Go the limit.

McReynolds: Those are the only things that

H.M.Jr; And whatever we do with the two men, announce it publicly. Anything else?

McReynolds: There is no question about firing them. I haven't talked to Peoples about it, but I'll have him over today.

11

H.M.Jr: Is that enough? Read your memorandum again.

McReynolds: All right.

H.M.Jr: You didn't ask for any action, but it's all right.

Oliphant: Are you putting down to see Graves?

H.M.Jr: Do you want to come in on it?

Oliphant: Yes, and five additional minutes.

Upham: Anything you want to say to Tom Smith or anything you want to ask me?

H.M.Jr: (Nods no) Just give him my best regards. Tell him I'm sorry but while this thing was on last week I didn't want to see anybody. Tell him I'm sorry.

McReynolds: All right if I play golf with Tom while he's here?

Gaston: No, you play with Pelley, J. J. Pelley.

McReynolds: Oh, you want me to play with Pelley.

Taylor: You can't play with Pelley.

Magill: I'd like to go along, Mac, if you don't mind.

Taylor: Want to look out for Pelley; that fellow's a golfer. Pretty tough.

Oliphant: What I want to know is is he on the fairway or out in the rough.

H.M.Jr: Who? Pelley - he's on top of the world.

McReynolds: He's just about in the middle of the green.

Magill: He's got a two-foot putt.

Taylor: He's very straight and he never misses any putts.

McReynolds: Well, I thought it was one of the wild hooks that got him off.

Haas: He controls his slice.

H.M.Jr: Herbert?

Gaston: Chick tells me that some of the people at the State Health Officers Conference are likely to pan the Red Cross pretty hard about their conduct during the Ohio flood. He also tells me his own impression was that the Red Cross was pretty inefficient there. Thought you might be interested to know. It's not our funeral.

H.M.Jr: I'm only chairman of their Finance Committee.

Gaston: He said they strongly recommend that we scold Reinburg for letting them rescue people.

H.M.Jr: Like the story I told about the health nurse we had. Years ago we had one of the first health nurses in our town, and Dr. Cameron asked for a sick baby - couldn't the health nurse go across the line and take care of it; and in one of my lighter moments, I said, "Is the baby a Democrat or Republican?" And I had the darndest time trying to explain that I was being facetious.

Gibbons: They would take a fall out of you for that.

H.M.Jr: Will you (Taylor) carry on tomorrow - Red Cross?

Taylor: That's one of the things.

H.M.Jr: Incidentally, I'd like a formal report on that Procurement thing.

McReynolds: I've got a report about that thick on it so far.

H.M.Jr: Will you please? And I'd like to be - I mean give a summary of it.

McReynolds: Irey has made a fair summary.

H.M.Jr: And then I'd like to send it to Wallace.

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McReynolds: And, of course, we're going to get criminal action on one of them.

H.M.Jr: But I think Wallace is entitled to an answer.

McReynolds: Yes, he's entitled to one.

Roche: While Mr. Gaston brings up the Red Cross, I had a phone call from some one in New York a couple evenings ago, reporting that the Vice President of one of the banks up there said they had a customer who came in and told them of some twelve cars of clothing, most of it new, that had supposedly been sent to flood sufferers that had notes in the pockets and everything from people that had contributed - that had been turned aside, and the clothing was being sold. They asked me if I knew any way we could follow that up. I wasn't going to bring it up at staff meeting, but since Mr. Gaston mentioned Red Cross, I did.

H.M.Jr: Who's handling it, Miss Roche?

Roche: Who's handling it?

H.M.Jr: I mean is it Red Cross or

Roche: It was supposed to be Red Cross shipments of clothing to the flood areas that were diverted, never reached their destination, and sold to clothing merchants in New York.

H.M.Jr: I'd talk with Admiral Grayson. I'd go directly to him.

Roche: All right, sir.

H.M.Jr: I'd give it to Admiral Grayson.

Gaston: Chick said the most efficient part of the Red Cross in the flood area was the publicity section.

H.M.Jr: Of the Red Cross?

Gaston: Yes.

H.M.Jr: Well now, I'm going down for three days to this

island.

Gaston: When you come back, I'd like to abolish the Red Cross.

Mrs. Klotz: He's good this morning.

H.M.Jr: Herbert is very good.

Roche: Why stop there?

H.M.Jr: Maybe by the time we come back the Treasury will own the Red Cross and the Federal Reserve System.

And listen, Magill, you might look - I'm still director general of the railroads. Maybe I can take Mr. Pelley and the railroads over. Have you thought of that?

Magill: I was just going to suggest that they had taken you over, and I don't know why you shouldn't take them over.

H.M.Jr: Just look up if, as director general of the railroads

Magill: I'll do that.

H.M.Jr: I'm just joking.

Gaston: You can take consolation there that if you lose on this as Secretary of the Treasury, you win as director general of the railroads.

H.M.Jr: Well, Wayne's got a \$350,000 note on Seaboard or something, trying to collect.

Taylor: Yes, having quite a time with it. They've got 10 more days.

H.M.Jr: 10 more days.

Taylor: We're going to get that, too.

McReynolds: They'll make more than \$350,000 - the railroads generally - out of this changed bill.

Magill: Oh yes.

McReynolds: So they ought to be able to pay the note.

H.M.Jr: We figured last night it would be good until '62 - \$37,000,000 they'd gain by this thing.

McReynolds: More than that. Only 37 on the present rule. They're changing the rule now that they can't retire until 70. They'll never stay after 65. after the other, and that will add another 10 million.

H.M.Jr: And pay them another 100 million not to sue us.

Magill: Well, what gets me is that the employees are better off under the existing scheme.

H.M.Jr: That's where we're strong.

Magill: And yet they go ahead and enter into this agreement which gives the railroads half a billion dollars.

H.M.Jr: That's where I'm strong. That's why I'm not - I've got a little hope left. Because this fellow Harrison is smart, and I looked him right in the eye and said, "If you hadn't made this agreement - that is, you're just being a good sport about it, aren't you?" He said, "Sure." But he realizes that with our plan he'd be better off. He can't keep that quiet forever.

Magill: Well, that's one thing that's worrying him at the present time.

H.M.Jr: Well, I did - did I say at the press conference that the men would be better off under the old plan?

Gaston: Yes, you did.

H.M.Jr: Miss Roche?

Roche: I think there is nothing special to report. on the State Health Officers Conference

except that I heard the same story as Mr. Gaston told. Practically every state except two is represented and they expect a very good conference.

- H.M.Jr: I think it would be unfortunate if they did publicly pan the Red Cross. I don't think that we would.
- Roche: Well, we couldn't, but you can't tell what the State Health Officers will do.
- Gaston: We won't certainly encourage it.
- Roche: And there will be every effort made to handle this so there will be as little as possible. And it may be exaggerated, I don't know.- perhaps they're not so bad as they have painted it.
- H.M.Jr: Herbert's eyebrows are up so high today, I don't know what it is.
- Magill: The railroad conference was too much for him.
- Gaston: There was one other thing. I don't know whether Miss Roche has told you about it, but we are engaged in negotiations for a permanent publicity man for the Public Health Service, which I think they need very badly. I have talked to a man and Miss Roche and Dr. Parran and Miss Switzer are trying to find a spot to place him, an appropriation, starting at about \$3600 a year. He's a pretty good man; he's made very much more than that. It will be out of
- Roche: Your office.
- Gaston: Yes. I mean
- Roche: The money won't be.
- Gaston: On the Public Health appropriation, if we can find the appropriation.
- H.M.Jr: (Nods yes) Anything else?

Roche: Well, just - we felt that there was a very serious situation down there and no central place for information either to come through or to funnel down from Mr. Gaston's office, and we had been trying for some time to find somebody that would work with him. We think we may have a possibility.

H.M.Jr: Georgie?

Haas: I have nothing new this morning.

H.M.Jr: I'd like you and Taylor to stay after this if you will, please.

Wayne?

Taylor: I've got four little things that I'll take up with you.

H.M.Jr: All right, we'll get around to it.

Oliphant: Nothing except these three things, ready to sign.

H.M.Jr: Whenever you see me.

Well now, the only people who are coming on the Hopkins - Bell and Mac and Haas at 11:00.

Mrs. Klotz: I invited Bell and McReynolds.

H.M.Jr: Were you (Haas) notified?

Haas: Yes, sir.

McReynolds: The operator notified my office, yes.

H.M.Jr: (To Mrs. Klotz) You're more efficient than I realized.

Mrs. Klotz: Well, I'd forgotten about it, but I guess I did.

Magill: I've got a revision of the estimated revenues for the fiscal year. I'll give you a memorandum on it.

Haas: Say, Ros, if you don't mind holding that until we - I've got Crum going over both that year and '38.

H.M.Jr: Wait until Friday morning. After that. I mean I'll just let the machine turn over and let it go from you to Bell, that's all.

Magill: Want me to send it to Bell?

H.M.Jr: When you are ready, send it to Bell.

Haas: He also wants '38.

H.M.Jr: All right.

Magill: And this conference of actuaries will be Thursday afternoon.

H.M.Jr: All right. Anything else?

Magill: No.

H.M.Jr: All right.

April 6, 1937.
10:45 a.m.

H.M.Jr: Hello

Operator: Dr. Burgess.

H.M.Jr: Thank you - hello

Burgess: Hello sir.

H.M.Jr: How are things going to-day?

B: Well, we're getting plastered this morning.

H.M.Jr: Are you?

B: We bought ten million already.....

H.M.Jr: Yes.

B:and we've got orders out for another eight.

H.M.Jr: Yes.

B: So that we're getting hit in the snoot.

H.M.Jr: Ah-ha.

B: That - ah - that statement of yours that all the boys played up is the thing that they all to-day.

H.M.Jr: That we need new money?

B: Yes.

H.M.Jr: Ah-ha, well, of course, it's something that everybody knew, but.....

B: All the - all the market sharps knew it.

H.M.Jr: Yes.

B: But the general public's opinion hasn't grasped it yet, that's all.

H.M.Jr: Well I was forced into a position where I had to say it.

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B: Yes, well I assumed that was it.

H.M.Jr: I mean - I mean my position is this - if I know something like that I've always said it; sometimes it's helped and sometimes it doesn't.

B: Yes.

H.M.Jr: But you know I've always prepared the market.

B: Yes - yes.

H.M.Jr: And, as I say, I didn't say it to be smart or one way or the other.....

B: Yes.

H.M.Jr:but - ah.....

B: Well the old policy of telling the truth when you're.....

H.M.Jr: I think it helps in the long run.

B: Yes.

H.M.Jr: I've done it now for - ever since I've been here.

B: It just happened to hit us at a bad time this time.

H.M.Jr: Ah - well I'm sorry but it might be better to get it now than to get the figures when the President.....

B: Well perhaps it would. Well we'll just have to do the best we can here; we're - we're - just a lot of money....

H.M.Jr: Yes.

B:and we're - ah - we're taking up the stuff - there was a lot of stuff offered.....

H.M.Jr: Yes.

B:and we're going to have to back away gradually.

H.M.Jr: Yes. Well I think that that leads me to this and this might - I'm going away this afternoon for a couple of days because I've had this now for three weeks.....

B: Yes.

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H.M.Jr:but I'm not going very far; I'm going down to Chesapeake Bay.....

B: Yes.

H.M.Jr: And I thought that with the June bills going up so high.....

B: Yes.

H.M.Jr:I thought we stop those June bills and stop for a week or so and then when we begin to sell we can sell into September.

B: Yes, I think that's probably a good idea.

H.M.Jr: And - ah -

B: Give us a week to turn around in here.

H.M.Jr: Give you a week to turn around in.

B: Yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: Don't you think so?

B: Yes - yes - of course, there are two or three other little things on the horizon here; the - I've just been talking with Don about his intermediate credit bank adventures; I think they'll be all right.

H.M.Jr: Yes.

B: Ah - President Delano's coming in tomorrow about his - his obligations for his organization.

H.M.Jr: Yes.

B: Now there's the Federal Land Bank.

H.M.Jr: Yes.

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B: My information on them is that they'd better not call their bonds May 1st but had better write it over 'til next November.

H.M.Jr: Ah-ha.

B: That is I think this market is in no condition for it.

H.M.Jr: Yes, Wayne is sitting here with me.

B: Yes.

H.M.Jr: And he can hear what you say.

B: Yes.

H.M.Jr: Wayne is the only one in the room and he.....

B: That's a horseback opinion - I haven't.....

H.M.Jr: Well he's talking to me now; he says they've got two more days to make up their mind.

B: Yes, well unless things are a lot better in the next two days than they have been (laughs) why that would be my judgment.

H.M.Jr: Ah - would you like me to say publicly that our estimates are that we'll need about 300 million dollars new money between now and the first of July - then that puts a top on it?

B: I don't believe that would help right now. Ah - I don't believe so.

H.M.Jr: No. I mean between now and the 15th of June. We'll just sit tight.

B: I think I would.....

H.M.Jr: Yes.

B:and when you start in on your program of selling bills -

H.M.Jr: Yes.

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B: ... - well I'm not sure I'd even announce that.

H.M.Jr: Well what will happen is that when the announcement goes out Thursday it will be just 50 million.

B: That's right.

H.M.Jr: And there will be nothing but just that.

B: I think that's all right.

H.M.Jr: See?

B: I think that's a Bayer-Aspirin.

H.M.Jr: And that gives - that closes the thing 'til the 15th of June.....

B: Yes.

H.M.Jr:and then when we do start, we'll start selling September.

B: Yes - yes.. I'd like to think about that and see if I have any other thoughts but that's my present - present reaction.

H.M.Jr: Well if you have anything call me before one.

B: Yes - yes.

H.M.Jr: At this distance, I, frankly, even if you have to take 25 or 50 million in the next day or two.....

B: Yes.

H.M.Jr:I'm really not worried from the standpoint of the whole thing.

B: Oh I'm not.

H.M.Jr: Because I really think that what you did was right, see?

B: Yes.

H.M.Jr: And - ah - if it takes a couple of days to straighten this thing out then I'm hopeful that we will have a bottom.

- 6 -

B: Well this is a two-way - this is a two - a two pronged instrument.

H.M.Jr: Yes.

B: One is the prong of excess reserves.

H.M.Jr: Yes.

B: And that doesn't happen until the bonds are delivered so that that works gradually. The others - the immediate effect on the bond market.....

H.M.Jr: Yes.

B:so that.....

H.M.Jr: Well I - if I had to have that Press Conference over again - they said that some of the smartest boys in Washington are here.....

B: Yes.

H.M.Jr:and they wanted to know. Now I never lie and never will lie and I had to give an answer and that was the answer.

B: Yes- yes - yes.

H.M.Jr: And it just was putting down something that anybody who follows the thing closely would know.

B: Yes, these boys - I asked the boys here if they didn't all know that before.....

H.M.Jr: Yes.

B:and the dealers they said, "Why yes, we did, but it was the public didn't realize it."

H.M.Jr: Yes - well I'll talk to you a little later.

B: Very good.

H.M.Jr: Thank you.

B: Goodbye.

April 6, 1937.
12:13 p.m.

H.M.Jr: I'll save you the trouble but I want to tell you this.
Stephen B. Gibbons: Yes.

H.M.Jr: I don't know whether you know about this but it seems that Flynn of the alcohol got drunk -
G: Yes
H.M.Jr: - Very drunk
G: Ah-h.
H.M.Jr: And they sent the boys up there and they got his resignation. They came in here and gave me the name of a man that Guy Helvering is very anxious to - ah - appoint.
G: In other words, John Flynn has resigned?
H.M.Jr: Yes, so they tell me.
G: Yes.
H.M.Jr: Ah - Helvering's handled this entirely.
G: Ah-ha.
H.M.Jr: I told McReynolds that I would not appoint this new man unless you and Helvering got together and that you saw that my interests were taken care of in New York.
G: O.K.
H.M.Jr: Because you know all the circumstances.....
G: Sure - sure.
H.M.Jr:and it's very nice for Helvering to say, "Let Morgenthau sign this and keep it quiet".
G: Yes.
H.M.Jr: Well you can't do that.

G: Oh no - no - you'd put yourself in a - that's a hell of a thing for him to say.

H.M.Jr: Well that's what he did.....

G: Well he's.....

H.M.Jr:and I'm asking you to look after my personal interests in this matter.

G: O.K.

H.M.Jr: And I told Mac that unless you agreed to it I wouldn't go along.

G: All right.

H.M.Jr: See?

G: O.K.

H.M.Jr: Thank you.

G: All right, sir.

April 6, 1937.
12:35 p.m.

H.M.Jr: Ah-ha.

Burgess: So that would show in the statement tomorrow whether we do anything between now and then or not.

H.M.Jr: I see.

B: And I think that's going to be of good effect.

H.M.Jr: I should think so.

B: And then put down 25 million in reserve and that will help a little. Now on that question that we were discussing about these bills.

H.M.Jr: Please.

B: I'm - I'm sure that that first judgment was right.

H.M.Jr: Yes.

B: That it's wise not to say anything about it.....

H.M.Jr: Yes.

B:because they'll just play it up again as a front page story.....

H.M.Jr: Right.

B:and make a mess of it.

H.M.Jr: Yes. No, it seems to be holding its own now.

B: Yes, well I feel much more cheerful about it.

H.M.Jr: Good.

B: A little more hook fingers crossed, knocking wood and so on.

H.M.Jr: All right.

B: Well I hope you have a nice time.

H.M.Jr: Thank you.

- 2 -

B: Get some sunlight and things.

H.M.Jr: Ah - by the sound of your voice I would say, after this blows over, you could stand three or four days.

B: You're quite right. (Laughs)

H.M.Jr: All right.

B: (Laughs) I'll do it.

H.M.Jr: Thank you.

B: First rate.

H.M.Jr: Goodbye.

B: Goodbye.

April 6, 1937.
12:55 p.m.

H.M.Jr: Hello

Operator: Mayor LaGuardia

H.M.Jr: All right. - hello

LaG: Hello Mr. Secretary.

H.M.Jr: How are you?

LaG: Fine. Mr. Secretary - just received a wire in the price of mines - of Customs Inspector at North Beach.

H.M.Jr: Yes.

LaG: Your telegram refers to trans-Atlantic air service.

H.M.Jr: Yes.

LaG: What we have in mind right now is a Canadian air service. I suppose the same ruling would hold.

H.M.Jr: Oh yes.

LaG: Thank you very much.

H.M.Jr: Is that all you want.

LaG: Yes, thanks.

H.M.Jr: What?

LaG: Yes (laughs)

H.M.Jr: Have we got you fixed up with Hoffman Island.

LaG: Oh we're working on that. I've got a few politicians on my end of it now.

H.M.Jr: Oh you have.

LaG: But it will work out all right.

H.M.Jr: When you open that I want to see it.

LaG: Yes sir, you'll be right there when we open it.

H.M.Jr: (Laughs)

LaG: Thank you very much. Goodbye.

H.M.Jr: Goodbye.

April 6, 1937.
2:34 p.m.

H.M.Jr: Hello

Burgess: Hello sir.

H.M.Jr: I was just leaving and I wanted to check with you before I left and tell you while I'm gone why if you'll call Taylor again.

B: All right.

H.M.Jr: Ah - every - do things look a little better?

B: Well they look about the same as when I talked to you last; the prices are holding very nicely;.....

H.M.Jr: Yes.

B:we're buying very little; we bought perhaps a million since I talked to you last.

There are bonds that are hanging over the market.....

H.M.Jr: Yes.

B:but they're not pressing them.

H.M.Jr: Ah-ha.

B: For example, from Baltimore they've got a lot of 2-1/2's.....

H.M.Jr: Yes.

B:that they want to sell. They're offering them now at 99.18.....

H.M.Jr: Yes.

B: That's a thirty-second over the - 97.18.

H.M.Jr: Yes.

B: That's a thirty-second over the present bid price.

H.M.Jr: Yes.

- 2 -

B: If we moved our bids up we'd catch it in the neck with that.

H.M.Jr: I see.

B: And New York City Bank wants to sell ten million at 48.51.

H.M.Jr: Yes.

B: There's 15 million Treasury notes that somebody wants to sell.....

H.M.Jr: Yes.

B:but they're not pushing them at these prices.

H.M.Jr: I see.

B: So that things are, I think, behaving pretty well.....

H.M.Jr: Good.

B:on the whole.

H.M.Jr: Good.

B: But we couldn't push them up any and.....

H.M.Jr: No.

B:it's a little bit unstable, of course, with that stuff offering.

H.M.Jr: All right, well you give Taylor a ring while I'm gone.....

B: Yes sir.

H.M.Jr:and I'll be back Friday morning.

B: Well have a good time.

H.M.Jr: I will.

B: Goodbye.

H.M.Jr: Cheerio.

MEMORANDUM

April 6, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Treasury bonds opened about $1/4$ of a point lower today, and the trading in the long maturities was fairly active on the down side during the first hour or so, these issues showing losses of $5/32$ to $12/32$, with the exception of the $2\ 3/4$ s of 1948/51, off $2/32$ nds. Losses in the rest of the list at this time ranged from $1/8$ th to $12/32$ nds. The market leveled off thereafter and the volume diminished. Turnover of Treasury and Guaranteed bonds on the stock exchange up to 12:30 P. M. was approximately \$1,500,000 and about \$800,000 during the rest of the session. Quotations tended slightly higher in the afternoon and at the close the average decline from yesterday in the long bonds was about $1/4$ of a point; the rest of the Treasury bonds were unchanged to $7/32$ down. Guaranteed bonds were off generally $4/32$ to $15/32$. Treasury notes were generally $1/32$ to $3/32$ easier with the rest of the market most of the day, but tended to improve in the last hour. At the close the 1940 and 1941 maturities were $1/32$ to $3/32$ off, with the new $1\ 1/4$ s off $1/8$ th; the rest of the list is approximately the same as yesterday.

Domestic bonds were quiet and prices tended to be easier. At the close high grades were small fractions down and second grades were fractionally down from yesterday.

Foreign bonds held quiet and steady. Brazilian bonds were fractionally higher and Italians showed slight gains.

Purchased today \$14,033,000 miscellaneous Treasury bonds of which \$3,900,000 are for account of the Treasury.

April 6, 1937

For Mr. Schwarz's memorandum, of this date, on the subject of Red Cross participation in the Flood, is filed with Mr. Gaston's memorandum under date of May 20, 1937.

-COPY-

EMBASSY OF THE UNITED STATES OF AMERICA

Office of the Treasury Attache

Customs

2 Avenue Gabriel
Paris, France.

April 6, 1937.

MEMORANDUM FOR THE SECRETARY:Subject: Narcotics - Europe.

We are all busy as hell around here the last few days, lining up informers and chasing big shot traffickers here and there as they come into our picture. We are having no trouble getting informers, the big difficulty being in weeding out the chisellers and picking the ones who look like they may help us. We have several men already working for same in Paris and a couple we have sent to other ports. We call these boys the day shift. Then we have inaugurated the night shift, which is composed of women whom we are setting in to associate with known American smugglers to do undercover work at night with these gentlemen. The picking of these operatives has to be done very carefully, as the girls soon get wise to the racket of informing on both sides. We had a striking example of this in Cuba, where one of the girls who would spend one evening with one of the boss smugglers and the next evening with one of our boys, had a nice two-way racket in this connection until we got suspicious and deliberately fed her some phoney information, which bounced back in our lap the next day through other channels.

We are now playing ball well with Nick in China. He tipped us that Kessler would arrive over Stolpce (Polish-Russian frontier) on Sunday. We tagged him at Stolpce, rode with him to Vienna, where Blindo has been hanging out, then escorted him to Paris. (Brumer rode with him all the way). Kessler did not physically contact Blindo but he did contact another bird on the confidential black list, undoubtedly in the same gang. I was among those to meet him unofficially when he reached Paris, and I must say he is a cagey bird. The Polish, Austrian, and French police have all worked fine with us on this job so far. Kessler is now in Paris and sails to-morrow on the Normandie. Blindo is coming in to-night from Vienna for a final pow-wow with him before he leaves for New York. (Brumer also on same train with Blindo. Also a man from our Vienna office.) Beers will see Kessler off on the Normandie.

I have just lined up Vice Consul Fuqua, who is going on the Normandie on leave, to watch Kessler en route and to report events on voyage to

-2-

Customs Agents at New York. How the narcotics on this venture are moving we have not been able to dope out as yet. Of course, we have looked at Kessler's personal baggage and it is clean, naturally, as Kessler is smart. However, I think it is a big consignment. We are searching diligently for a lead. Also watching the SS. PRESIDENT WILSON out of Marseilles on the 10th (tip from Nick, that possible unidentified carrier may be aboard her).

We will advise New York all possible re Kessler.

Scharff is doing fine. He is responsible for our progress in informers, and is living up to expectations in that regard. I like his work. All he needs is proper backing to get results. He has also been a help with the French police situation which is getting better.

Must close to get this off on Normandie.

Respectfully,

THOMPSON.

TO:

Mrs. Klotz

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Here is a summary report regarding the work of the Bureau of Vestries at New York since the service there was reorganized.

If the Secretary would like to have a copy of this report sent to District Attorney Hardy, I will be glad to prepare a letter accordingly for his signature.

From: MR. GRAVES

H/S

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 6, 1937

TO Mr. Harold N. Graves,
Assistant to the Secretary.

FROM H. J. Anslinger,
Commissioner of Narcotics.

There is transmitted herewith a carbon copy of a communication dated April 1, 1937 from District Supervisor Garland Williams at New York City, relating to the accomplishments in District #2 since his assignment to the New York office.

H. J. Anslinger

Enclosure.

April 6, 1937

Mr. Harold N. Graves,
Assistant to the Secretary.
H. J. Anslinger,
Commissioner of Narcotics.

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(Signed) H. J. Anslinger

Enclosure.



TREASURY DEPARTMENT

BUREAU OF NARCOTICS

NEW YORK, N. Y.

OFFICE OF DISTRICT SUPERVISOR
DISTRICT NO. 2STATE OF NEW YORK AND FIFTH INTERNAL
REVENUE COLLECTION DISTRICT OF
NEW YORK

April 1, 1937.

Mr. H. J. Anslinger,
Commissioner of Narcotics,
Tower Building,
14th & K Streets, N. W.,
Washington, D. C.

Sir:-

At the verbal request of Mr. Harold N. Graves, Assistant to the Secretary of the Treasury, I submit below a brief summary of the results achieved by this office since I assumed the position of District Supervisor on November 17, 1936 as compared with the results achieved by this office for the same period of time immediately prior to my assuming charge of this office.

I should like to state that between the dates November 17, 1936 and December 1, 1936, practically no work whatever was accomplished by this office due to the fact that the eleven men who had been disciplined still remained in the office pending their transfer and constituted a very disturbing factor. They did no work and the remainder of the force did very little better.

During the month of December 1936 the Bureau took active steps to build up the personnel of the office by transferring the men from other Districts and by the introduction of new agents into the Service. During that month an attempt was made to carry on the work by having agents from other Services temporarily assigned. The result was that the new men in the office were unfamiliar with the city and unfamiliar with the type of work required in this area and necessarily required a period of adjustment before they reached the maximum efficiency. The men brought into the District temporarily on details of a few days or a few weeks proved to be relatively ineffective and such details are considered practically worthless. As a result of all this, the entire month of December was spent as a period of readjustment and rehabilitation and it was the first of the year 1937 before we really began functioning as an enforcement organization.

The records of this office show the comparative figures requested by Mr. Graves as set out below:

Mr. H. J. Anslinger,
Commissioner of Narcotics - page 2.

April 1, 1937.

	Period July 1, 1936 to Oct. 31, 1936	Period Nov. 1, 1936 to Mar. 29, 1937
Number of enforcement cases	91	123
Number of Registrant cases	88	24
Number of Defendants (enforcement)	117	190
Automobiles seized	1	7
Heroin seized	48 ozs.	386 ozs.
Morphine seized	1/4 oz.	12 ozs.
Gum Opium seized	7 ozs.	24 lbs. 11 ozs.
Smoking Opium seized	-	146 ozs.
Yen Shee seized	1 oz.	30 ozs.
Yen Shee Wine seized	-	4 ozs.
Paregoric seized	82	-
Heroin Pills seized	-	979 ozs.

I might say that I, personally, am not at all satisfied with the results achieved to date and I hope for more effective work in the future. The policy of the office as established by myself is that the agents shall not waste any time attempting to develop cases against what are known as "deck peddlers" but shall confine their attention to what are known as "ounce peddlers" and particularly to make every possible effort to develop the so-called "ounce peddlers" and their source of supply and their source of financial assistance. I should like very much to have the condition arise whereby the number of defendants and the number of cases in this office would be comparatively small but that the importance of the cases and the position of the defendants in the narcotic traffic would be comparatively important, and all my effort is being directed towards this end.

We have developed some important cases within the past fifty days and I can name among those cases the following:

Charles Riverra, et al. which included 7 defendants and resulted in the location of two separate "plants". The case has resulted in the seizure of narcotics and arrest of persons in Florida, Washington, D.C. and other points.

Leong Sai Lun, which included 4 defendants and resulted in the seizure of a large quantity of opium. This man undoubtedly is one of the principal sources of supply for smuggled opium in this area.

Max Sprung, et al. This man has long been known as a principal source of supply of narcotics in New York City and has never been apprehended before. His apprehension caused some degree of consternation in the narcotic traffic as he was believed to have "protection".

Mr. H. J. Analinger,
Commissioner of Narcotics - page 2.

April 1, 1937.

Henry Moy, et al. There are 5 defendants in this case in New York and it is believed that the successful conclusion of this case in the courts will result in the destruction of another of the principal Chinese opium smuggling and distributing organizations in the Eastern part of the United States. This organization also apparently controlled the distribution of heroin pills in New York City.

Sol. Gros, et al. In this case we have indicted, as a result of an investigation, one of the largest heroin distributing organizations in New York City and one that has continued operations without any molestation in the past. Sol. Gros and Benny Horowitz supplied the Corrigan-Rutherford organization which was broken up by a joint investigation of this office and the Baltimore office. We also have extended this investigation to include persons of national prominence in the horse-racing business and it is believed that the successful conclusion of this matter will have a beneficial effect on many other Districts in the United States.

San Juan Hill cases. A large number of arrests have been made in the notorious San Juan Hill section in New York which has long been known as a constant and major source of supply for addicts in New York City. The large number of cases that we have developed in that area among the colored population resulted in the cessation practically of activities in that area.

Chin Chee and Chin Long, et al. These cases resulted in the seizure of two factories for the production of heroin pills. It is believed that these really are almost the first instances of a seizure of the actual apparatus used in the manufacture of these pills. Seizure was also made of the ingredients used in making the pills.

"Plants" - In the past few weeks we have effected the seizure of nearly 25 storage places for narcotics which are commonly known as "plants". These "plants" contained scales, sifters, mixing bowls and all the necessary apparatus for the blending of narcotics. Each one was seized as a result of careful investigative work by the officers developing the case.

It is my belief that there always will be considerable difficulty in developing evidence against the leaders and directors of the

Mr. H. J. Anslinger,
Commissioner of Narcotics - page 4.

April 1, 1937.

narcotic trafficking organizations which will prove that such persons actually handle the narcotics themselves or personally receive the money therefor. I am of the firm belief that the only way in which we are going to be successful in prosecuting these so-called "big shots" is to secure evidence which will serve as the basis for including them in the indictment as members of a conspiracy. I fully realize that in adopting such course of action we will at times have acquittals against such persons but I am positive that if we do prosecute some of these persons on what may be called meager evidence we may have some acquittals but we certainly will have some convictions, and in those cases we will be just that many convictions ahead in our effort to eliminate the traffic. It is difficult to develop iron-clad cases based on direct evidence against these men and I am anxious to prosecute them on any evidence whatever even though there is a chance that they might be acquitted because certainly some of them will be convicted.

I believe that it would be entirely improper for me to close even a statistical report without paying tribute to the spirit of cooperation and the direct assistance rendered daily to this office by the office of the United States Attorney for the Southern District of New York, and I am sure that it is not at all improper for me to say that Mr. Joseph P. Martin, Assistant United States Attorney, who has been placed in charge of all narcotic cases by Mr. Lamar Hardy, United States Attorney for the Southern District of New York, has rendered me the most excellent cooperation that I have ever received from any official in a United States Attorney's office.

Respectfully,

Garland Williams,
District Supervisor.

GW:CB

My dear Mr. President:

The five cases pending before the Federal Trade Commission against some of the largest distilling companies which I mentioned to you involve their monopolistic practice of fixing retail prices in violation of Federal law against resale price maintenance.

The Tydings-Miller Bill has been reported out in both Houses. It would legalize the monopolistic practices on which these Federal Trade Commission cases rest.

This Bill applies to all commodities and would tend to raise prices generally, particularly in the lines of business where monopolistic conditions prevail. It should not pass at all, but, if it is to be enacted, the liquor industry should be excepted because a rise in prices in that industry would have the additional social disadvantage of accentuating the problem of "bootlegging."

Faithfully yours,

Walter H. Reuther, Jr.

The President,

The White House.

HO:ven
4/6/37
5

TO:

176

Miss Chauncey

4-6-37

Mr. Vester carried to
Speaker at Mr. Oliphant's
request.

LHB

From: MR. OLIPHANT

APR 6 1937

My dear Mr. Bankhead:

My attention has been called to the remarks which Congressman Fuller made on the floor of the House on March 30 that representatives of the liquor industries are able unduly and improperly to influence the Department's action in the taxation and control of the liquor industry.

Congressman Fuller spoke in support of House Resolution 169, which he introduced, looking to an investigation of this whole matter. I should welcome such an investigation contemplated by this Resolution, and, if undertaken, it shall have my cordial support.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. William B. Bankhead,

Speaker of the House of Representatives.

HD: von
4/5/37
5

JR

GRAY

London

Dated April 7, 1937

Rec'd 9 a.m.

Secretary of State,
Washington.

Rush. 197, April 7, noon.

FOR TREASURY FROM BUTTERWORTH.

The following report has appeared on the exchange telegraph ticker under Washington date time:

"Several of the largest banks here have cabled to their London agents refusing to accept further gold consignments and also refusing additional advances against gold in transit. The reason is that there are strong rumors that the United States Treasury plans to reduce their gold or to change the handling price with a view to reducing imports of gold.

BINGHAM

HPD

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 7, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knote

BANK OF ENGLAND.

Mr. Bolton called at 9:45 today and referred to a somewhat garbled message from Washington which had come over the tape to London early this morning, to the effect that Mr. Morgenthau at a press conference had stated that there was going to be no change in the gold price or in the Treasury's handling charge "right now." As a result of this report which, as he said, fitted in with the atmosphere in London, the dollar immediately, after opening this morning, had been bid up to 4.85 3/4 with not a seller in sight (most of these dollar operations, he thought, were a hedge against gold on the way to New York), and the market had been so disturbed that, in order to prevent disorder, he had sold \$6,000,000 down to 4.8990 against which he was planning to earmark gold for us under our standing order. He could have bought some gold in the market, which was offered at 34.77, but had not taken any of it, not knowing whether we would like such operations under present conditions. I stated that I had repeatedly of late asked myself the question whether we should leave the gold order in London and wondered how he felt about this order. Bolton replied that, as far as they were concerned, they would like to have it "purely for our own use" just as they had been doing ever since last September. They would like to have some arrangement whereby they could set aside gold for us in London whenever intervention in the dollar market seemed advisable. I replied that the question of continuing this order would probably come up for reconsideration before long; that we had felt that as long as we were not getting any gold, there was no need to cancel it or to reduce the price. Speaking my own mind, I was wondering whether, in view of the

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: April 7, 1937.

~~CONFIDENTIAL FILES~~SUBJECT: ~~TELEPHONE CONVERSATION WITH~~
~~BANK OF ENGLAND.~~

L. W. Knobe

- 2 -

fact that the daily fixed price had recently so frequently worked out below 34.77 and even below 34.76, our limit of 34.77 was still the right figure and whether a limit of, say 34.76 1/2 for instance, would not be more in line with recently fixed prices. Bolton agreed that the latter figure would be more in line with the position today, when there were few buyers of gold, but not with the general position found so frequently in recent days when gold arbitrage was done on the basis of 34.78 and even higher. If we decided to reduce the limit a little, that, he did not think, would do any damage as far as they were concerned. I made it clear that in this whole matter of the limit of our order, I had spoken entirely my own mind.

I then referred to the very puzzling daily reports from London to the effect that so-called "special quarters" had regularly furnished large amounts of gold and asked whether he could explain that to me. Bolton replied that he did not understand these reports, never got them himself, and that he knew very little of what was going on in the bullion market. It seemed to him, however, that the market, in making these reports, did not realize that Rothschild, in addition to receiving the Bank's orders, was also handling most of the newly mined gold in the market, and was about the biggest bullion broker in London today, with an enormous gold business of its own. It seemed, therefore, unwise to him to interpret "special quarters" as meaning the Bank or the Fund. It would be more correct to say that "special quarters" were nothing more than "the whole of Rothschild's business." Checking into the matter a little further I would probably find that particularly heavy sales by so-called "special quarters"

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE April 7, 1927.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KnakeBANK OF ENGLAND.

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frequently coincided with the arrival in London of large consignments of South African gold. The assumption that either the Bank or the Fund was ^{firmly} back of the operations of "special quarters" was very largely "hot air."

LWK:KMG

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 7, 1937.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnobeDR NEDERLANDSCHE BANK

Mr. de Jong called at 11:25 today for the purpose, as he said, of checking up on rumors circulating in the Amsterdam market that the United States Treasury was going to alter its gold price or the amount of its handling charge. I replied that I knew no more than had been reported in the press from time to time, as for instance, the President's statement at yesterday's press conference, to the effect that he had given no thought to the reduction in the price of gold, and that in my repeated efforts to learn something in Washington, I had not found any interest in the matter on the part of anybody. Consequently I had no reason to assume that any such steps were under consideration. de Jong wanted to know whether I was speaking of the gold price or of the handling charge and I replied "of both," adding that if ever there were a change it would, in my humble personal opinion, be one of the handling charge which, it seemed to me, the Secretary had the authority to change at any time he so decided. de Jong inquired whether, in case there were a change in the handling charge, it would affect both buying and selling price. I replied that I knew no more than he, but thought that, as a practical proposition, the only thing that mattered under prevailing conditions, if there were a change at all, would be a change in the handling charge on the buying side. I added that, personally, for political reasons, I did not expect a change, certainly not in the near future. If there were any definite news about the matter, he could rest assured, we would advise all our friends abroad, as soon as we could.

I referred to our recent sales of guilders for his account under

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 7, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM L. W. Knobe

DE NEDERLANDSCHE BANK

- 2 -

his old order and inquired whether we had acted in accordance with his wishes. He replied in the affirmative.

ENK:KMC

RECEIVED

RECEIVED
COMMERCIAL DEPARTMENT
APR 10 1937

JR

PLAIN

London

Dated April 7, 1937

Rec'd 3:35 p.m.

Secretary of State,
Washington.

RUSH. 201. April 7, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The ticker report transmitted in my telegram of this morning following as it did the rumors mentioned in the last paragraph of my 191, April 3, 2 p.m., gave the gold market a bad shock. Unofficial denials from the United States have had, in a measure, a quieting effect but dealers are still nervous and refer to the fact that the Treasury is on a twenty-four policy basis.

The following ticker report appearing at 6:15 p.m. under a New York dateline will have a further disturbing effect unless counteracted from Washington:

"Several leading banks have expressed the opinion that the government desire to check gold imports despite the official statements that no action is contemplated now but it is believed that such procedure will be difficult. It is explained that the uncertainty of the situation and rumors of a change in the gold price make shipment too risky for the profit involved which is very

small

JR -2- #201, April 7, 7 p.m., from London.

small amounting to only about one thousand dollars on a ten million dollars shipment."

Aside from the immediate effect it is to be expected that today's happenings will have the effect of promoting a public discussion on the various aspects of the present gold cum monetary situation.

The following observations which Professor Sprague made in the course of a private conversation may be of interest inasmuch as during his stay in London at Montagu Norman's invitation he has made the Bank of England his headquarters.

In the first place Sprague is struck by "the general attitude of complacency about everything"; even the recent abrupt rises in the prices of raw materials he found were generally accepted with equanimity both in the city and in official circles (see penultimate paragraph my 137 of March 12, 6 p.m.). But he expects that as the rise in wheat and other food stuff prices contributes to a decided increase in the cost of living during the next few months this complacency will correspondingly undergo a change.

Secondly, Sprague is struck by the change in

sentiment

LMS 3-No. 201, April 7, 7 p. m., from London.

sentiment towards the value of the dollar in terms of sterling; the decided rise in American costs now being further increased, without any corresponding increase in efficiency, by labor activities is fully appreciated in London and consequently talk of an "under-valued dollar" has almost disappeared (see my 499, October 29, 7 p. m.).

Sprague also discussed in much the same terms as employed in my 172, March 25, 9 p. m., and 196, April 6, 6 p. m., the problems arising out of the increased value and increased production of gold and he stated categorically that the British had in their opinion all the gold they wanted; furthermore, they did not know what to do with their present gold profit if it should be taken; it was useless to apply it to the Issue Department since the profits of that Department are already credited to the Government and it could not be applied to the Banking Department because of its inflationary effect. In Sprague's view American opinion might at some future date crystalize against the United States continuing to act as a dumping ground for the world's gold supply and India seemed to him as offering the only important potential market for gold.

BINGHAM

WYC:CSB

LMS

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

Paris

Dated April 7, 1937

Rec'd 6 p. m.

Secretary of State,
Washington.

458, April 7, 4 p. m. (SECTION ONE) (GRAY)
FROM COCHRAN.

Franc has weakened sharply today against dollar and other leading currencies. French shares and rentes continue to fall in an atmosphere made nervous by French judicial action understood to be against leaders of French Social Party and dubious as to soundness of world stock market and commodity price levels.

French financial press gives much space to Sugar Conference and to prospects for Van Zeeland's undertaking. Gossip is that Belgian Premier will select his countryman Frere, formerly League's adviser with Austrian National Bank, to do preliminary investigational work. Financial writers presume that on Schacht's visit to Brussels on April 13 he will not only talk with his colleague, Governor Franck of the National Bank of Belgium (whom he will have seen the two preceding days at Basel) but will also discuss with Belgian Government officials questions of colonies and raw materials with particular

- 2 -

particular reference to Germany's desire for Belgian copper from Africa.

Press report from Amsterdam says Dutch control intervened again yesterday to buy dollars.

Telegraphic press item from Helsinki quotes Central Bank Governor Ryti as saying that there will be no alteration in the link between the pound sterling and the Finnish currency.

Inclination on the part of the French press is to interpret official American attitude as one of endeavoring to discourage import of gold by letting uncertainty prevail as to policy regarding the price of gold, measures for checking foreign investments, and so on. There are rather detailed accounts in AGENCE ECONOMIQUE of statements by the President and Secretary Morgenthau with regard to gold. However, instructions by New York bankers to their European affiliates in the matter of refraining from gold arbitrage operations which would involve shipments to New York have not yet been changed. Instructions have been given to Guaranty's branch to stop an Indian cargo which is scheduled for shipment on the MANHATTAN from England to New York.

WILSON.

EA:LWW

PARAPHRASE OF SECTIONS TWO AND THREE OF NO. 458 of April 7, 1937, from Paris.

I called on the head of the National City Bank of Paris this morning. He told me that yesterday the foreign banks here had a meeting in order to try to work out some arrangement for putting into effect the forty-hour week for banks, beginning next Monday, as is required by the Government. The banks, it is now thought, will agree to close for one and a half hours at noon from Monday through Friday, and remain closed entirely on Saturdays. Not to have the banks open on Saturdays while most other business concerns are closed on Mondays gives rise to many difficulties regarding maturities, protests (which must be made within 48 hours), and other matters.

I was told by my contact that franc deposits in his Bank were very little in excess of the September 25 level. He said that the funds which have recently been repatriated through his Bank have been almost exclusively for investment in the new national defense bonds of the Government. The banking outlook is discouraging to him, since it has become manifest from recent negotiations concerning the forty-hour week that the Federation of Labor is dictating effectively to the Government the manner in which to administer the new forty-hour law. In addition, he said, he expects his employees to make an early demand for another increase in pay, and the present business of the bank does not warrant such an increase.

At

- 2 -

At noon today I visited Cariguel at the Bank of France. He told me that during the morning the French control had, in view of the strengthening of the dollar and sterling, procured on the market neither of these currencies. The last day for making payment on the new bonds was yesterday, therefore it is possible that the repatriation of funds for investment in them has stopped, and the effect thereof is being felt by the market. My friend is not optimistic, on the other hand, about the banking and financial outlook, with the present recurring strikes to carry threat of more serious ones to come, and with the unhappiness from enforcement of the forty-hour week in additional professions and industries. The Bank of France, he expects, will have to remain closed on Saturdays, although operations will necessarily have to be continued in the Foreign Exchange Department.

The following is VERY CONFIDENTIAL:

I reported in my telegram No. 403 of March 24, 4 p.m., that two and three quarter billion francs constituted the net acquisition of gold and foreign exchange by the French control since the change in policy earlier in the month. Today I was told that the net total has at the moment reached four and a half billion francs, due to the very favorable market operations last week.

At

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At the Bank of France I found little optimism about the prospects for an early international conference on economic matters. It was stated that Spinasse was a "dreamer" who cannot get France to accept his liberal ideas. The Bank of France's Foreign Exchange Department has taken no cognizance in its operations of the rumors coming from New York as to a possible change in the price paid by the Federal Reserve Bank in purchasing gold for the Treasury.

END MESSAGE.

WILSON.

RECEIVED

JUN 2 1918

FEDERAL RESERVE BANK
WASHINGTON, D. C.
RECEIVED BY THE FEDERAL RESERVE

EA:LWW

OFFICE OF
THE SECRETARY OF THE TREASURY

April 7, 1937.

MEMORANDUM FOR THE SECRETARY:

I attach a memorandum from Mr. Gorman containing further particulars with regard to the seizure of 25 pounds of morphine at Seattle on April 3.

GRAVES.



TREASURY DEPARTMENT

BUREAU OF CUSTOMS

WASHINGTON

OFFICE OF DEPUTY COMMISSIONER
INVESTIGATIVE UNIT

April 6, 1937

TO MR. GRAVES

FROM MR. GORMAN:

I am appending below a copy of a telegram this day received from the Supervising Customs Agent at Seattle with respect to the seizure at that port on April 3, of approximately twenty-five pounds of morphine, ex S/S HEIAN MARU:

"Seizure of approximately twenty-five pounds of morphine hydrochloride made on docks April third. Morphine in double tin containers approximately five pounds each wedged in soy sauce tubes ex S/S HEIAN MARU, consignee Furuya Company, Seattle, shipper same. Statement Furuya and Company involves Tensaka, now under arrest, and admits ownership of one hundred kegs, including five kegs containing morphine. Tensaka claims five tubes intended for man named Kudo. Hearing scheduled tomorrow and will seek twenty-five thousand dollars bail for Tensaka. Investigation continues, which at moment indicates large Japanese ring on this coast. Report will follow."

cc:

Mr. Gibbons
Mr. Gaston
Mr. Moyle

MEMORANDUM

134

April 7, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Treasury bonds opened slightly lower today and eased further in fairly active trading during the first hour or so, the long bonds showing declines of up to 4/32nds with the exception of the new 2 1/2s, off 6/32nds. The board market subsequently held steady and quiet until near the close when the volume of trading increased to moderate proportions and prices eased slightly. The long bonds closed 3/32 to 5/32nds down from yesterday, apart from the 2 3/4s of 1948-51, off 2/32nds and the new 2 1/2s, off 7/32nds. The rest of the list was 2/32 to 1/8th down. In the guaranteed list the F.F.M.C. bonds were several thirty-seconds lower, and the H.O.L.C.'s were unchanged to 1/32nd off. Sales of Treasury and guaranteed bonds were \$2,119,000 compared with \$2,260,000 yesterday. The note market was slightly easier with the bonds and the list closed generally 1/32 to 3/32nds off. The 1 3/8s of 1941 were off 4/32nds.

Both high and second grade domestic bonds were slightly easier in the early part of the day in a quiet market, and held steady until near the close when the second grade bonds declined, finishing small fractions to over 1 point off from yesterday. Prices in the high grade group were unchanged to 1/4 off.

Foreigns were dull and generally steady. Canadians, Germans and Japanese bonds showed fractional losses.

Purchased today \$13,585,000 miscellaneous Treasury bonds for System account.

THE WHITE HOUSE
WASHINGTON

April 7, 1937.

TO THE HEADS OF EXECUTIVE DEPARTMENTS, INDEPENDENT
ESTABLISHMENTS, AND OTHER GOVERNMENT AGENCIES:

It is my desire that the heads of the executive departments and independent establishments of the Government will immediately cause a survey to be made of the expenditure requirements of their departments and establishments for the remaining months of the fiscal year 1937. It is apparent at this time that the revenues of the Government for the present fiscal year will be materially less than the amount estimated in my budget message of last January; and, hence, the deficit will be far greater than was anticipated unless there is an immediate curtailment of expenditures.

You will carefully examine the status of appropriations for your activities with a view to making a substantial saving by eliminating or deferring all expenditures which are not absolutely necessary at this time. You will report to me through the Acting Director of the Budget not later than May 1, 1937, the steps which you are undertaking to reduce expenditures and the amount of the estimated saving resulting therefrom.

Franklin D. Roosevelt

MEMORANDUM

196

April 8, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Treasury bond market opened lower and was heavy all day, although quotations were steady to slightly better during the afternoon. At the close Treasury bonds were down from yesterday $2/32$ to $7/32$ with the exception of the $2\ 1/2$ s of 1949/53, off $23/32$. This issue was affected by a large offering by an out of town bank. Guarantees showed various losses up to about $1/2$ point. Turnover on the board was not large, totaling \$3,070,000 but over-the-counter trading attained substantial proportions. The note market was weak in quiet trading, and closed $1/32$ to $11/32$ off from yesterday, the principal losses being in the long maturities.

Domestic bond market was characterized by dull trading and an easier tendency. At the close the low coupon refunding issues were off on the average about $3/8$ ths of a point while seasoned issues showed various fractional losses. Second grade bonds were down small fractions to about $3/4$ of a point.

Foreigns were quiet and generally unchanged on the day. German, Polish and some South American issues showed fractional losses.

Purchased today \$22,153,000 miscellaneous Treasury bonds for System account.

MEETING OF ACTUARIES RE RAILROAD RETIREMENT

April 8, 1937
3:25 P.M.

Present: Mr. George B. Buck
Mr. Russell R. Reagh
Mr. Joseph B. Glenn
Mr. W. R. Williamson
Mr. Maurice Brown

Reagh: Well now, what I'd like to know is if everybody has got copies of the bill and everything like that.

Buck: No.

Reagh: Well, unfortunately the copies in my office have been scattered around.

Williamson: Here's the copy I got yesterday. I've skimmed it through rather rapidly this morning.

Reagh: I take it that everybody is pretty familiar with the bill. Maybe one copy would be sufficient for reference.

Buck: Well now, I still insist on being heard on my motion that Mr. Glenn act as chairman of the meeting.

Reagh: Well, the only point about that perhaps is that you are the only actuary that isn't in the United States Government. That distinguishes you apart from the rest. You've got the easy job anyway, as chairman.

Buck: Well, may the chairman ask, is anybody here prepared to explain the present bill and champion it? Or is this new to all of us? It certainly isn't new to you (Glenn).

Glenn: Not new to me.

Buck: Is the present bill something that you have evolved? Are you responsible for its actuarial structure?

Glenn: Not this one, this one that we have in front of us.

Buck: Not this one? Who is the actuary that you would say would take the responsibility for this bill?

Glenn: I don't think there is anyone that would claim that...

Buck: ...authorship. Have you (Williamson) sat in on any conferences?

- 2 -

- Williamson: No, not the earliest conferences. I talked to Mr. Glenn about it last week. Mr. Myers, of our office, went over and worked with Mr. Glenn and staff somewhat. So that we have got some general information as to the assumptions that enter into it. Mr. Glenn has actually done - I mean Myers has done a little work in connection with it, so he is quite familiar with the framework and the technique.
- Buck: He's one of your associates and an actuary?
- Williamson: Well, he's got seven examinations to his credit and he's been with the Social Security for two years.
- Reagh: I've got a synopsis of the existing and proposed bills.
- Williamson: That would be fine.
- Glenn: I did all of the actuarial work that was done while these conferences were in progress. I didn't actually sit in on any of the conferences.
- Buck: Well then, as I understand it, this is a bill that has been prepared in two sections, similar to the Social Security bill, by a group of conferees consisting of the Chairman of the Railroad Retirement Board, representatives of the employees of the roads, and representatives of the management.
- Glenn: I'm not sure that the Railroad Retirement Board took any official part in it. Latimer was around there practically all the time. The conference was directly between the representatives of the roads and the employees.
- Buck: Well, the purpose of all my questions is to find out if there is a father to this bill, to see where it originated.
- Glenn: Well, it is the result of conferences extending over a two-month period in which they considered....
- Buck: Conferences between whom?
- Glenn: The railroads and railroad employees.
- Buck: I see.

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- Glenn: During the course of these conferences they considered practically every proposition under the sun; and the cost estimates that I gave during these conferences prevented them from putting in any more liberal scale of benefits than they have here. The benefit scale is still, I think, too liberal for any tax rate.
- Buck: In other words, you think the taxes imposed in the tax bill are less than enough to support the benefits to be paid under the benefit bill, if the benefits were to be wholly paid from those taxes?
- Glenn: Yes, sir.
- Buck: Have you made any estimate of how much the excess is?
- Glenn: Well - tax averages about 6.6 percent of payroll.
- Buck: 6.6 all the way through?
- Glenn: Yes, that's on a perpetual basis. And I can't see how the cost of the plan can be less than 7 percent on a level basis, and it can be more than that.
- Reagh: If I remember, your estimate was 7.11.
- Glenn: We turned out some figures which did add up to 7.11 on it, and those figures didn't have any margin in them for any adverse experience anywhere along the line. And the assumption is through retirement - see, the proposed bill doesn't have any compulsory retirement. Retirement is optional at age 65, but there is no compulsory retirement so far as the bill itself is concerned; and the railroads have come to an understanding that they won't impose any arbitrary retirement age like 70, as they have at the present time. However, they do have the right to retire an employee, though the right is somewhat limited by the agreements which they have with labor organizations; that is, agreements that they have in effect at the present time. And if the employee is covered by one of these agreements, and practically all employees are, and if he doesn't wish to retire, the road can't retire him unless they can show that he is incompetent - disabled.

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- Buck: Those agreements are not in any law? They are in an agreement between management and employees?
- Glenn: Yes. Well, the Railway Labor Board is set up to enforce these agreements during disputes.
- Buck: Do you and Mr. Reagh have any disagreement as to figures that you know of?
- Glenn: We may disagree as to the probable rate of retirement. I don't know that there is any disagreement on any of the other figures, is there?
- Reagh: Let me clarify that point. We did object to the assumption in respect to retirement age. However, we based all of our conclusions as to the adequacy or inadequacy of the rates on accepting in full your assumptions throughout, accepting all of your figures and all of the figures which were given to us by Mr. Latimer; and on that basis, we say the proposed bill could not be supported by the tax rates in the tax bill.
- Glenn: It was due to that so-called differential that they threw in there.
- Reagh: Yes. In other words, we have no quarrel with your figures or with Mr. Latimer's figures, except in so far as they apply to that differential. He says there is a differential. We say that your figures show that there is no differential.
- Glenn: Well, there is a sort of an artificial one there. I don't know that there is any real one, but you can make one out of it.
- Reagh: As a matter of fact, I would say, Mr. Glenn, that your figures show conclusively that the differential is negative to the extent, on a present value basis, of more than 800 millions of dollars the other way. In other words, it will cost the Government more than 840 million dollars, on the present value basis, to exclude the railroads from the Social Security Act.
- Glenn: Well, was it - now, perpetual?
- Reagh: That is on a perpetual basis, on exactly the same basis that you have calculated your 7.11 percent as the cost of the proposed railroad plan.

- Glenn: If all the assumptions that were made in calculating the basic rate were carried out, I'm pretty sure there could not be a differential there on a perpetual basis, provided the tax rates under the Social Security Act are correct.
- Reagh: Whether or not the Social Security rates are correct, however, as long as they have to pay those rates under the Social Security Act, it would cost the Government that much money to exclude the railroads, because if the Social Security rates are incorrect and later adjusted, that adjustment should accrue to the benefit of the railroads.
- Buck: Mr. Williamson, have you, from the standpoint of the Social Security Board, given any thought to the effect on the Social Security fund? Is it to the advantage of the Social Security fund to exclude the railroad employees?
- Williamson: I don't believe it is determined at this stage of the affair. I don't believe either of these two men is sure of the basis of the figures over a long period. I haven't the slightest feeling that this 300 million is a tangible figure. He's using certain assumptions, and it seems to me it is undetermined that far.

Looking ahead for a dozen or fifteen years and making certain interesting but not very defensible assumptions, it seems to me that you could justify a credit for, oh, twenty years, through saying that part of these Railroad Retirement benefits were due to the Social Security Act, and that, working out that part, due to the Social Security Act, we find there is a little bit more than a pro rata part - than one percent against $2\frac{1}{2}$, and then $1\frac{1}{2}$ against $2\frac{1}{2}$, etc. Just looking ahead in that fashion for a period of twenty years, I think you could build up a feeling of a credit in there. That is a pretty temporary sort of thing. I think it's a real credit in there, but I can't quite justify any specific basis for working it persistently.

Here we have in Social Security a formula which loads the first three thousand of salary; it is sometimes explained as partial recognition of past service. The railroad retirement definitely goes back and recognizes

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past service in a much larger degree and calls it past service. Now, in Social Security, this going up on three thousand at 6 percent, against one percent later - if that were called past service, you'd have a little different analysis in there. I didn't call it past service. We just left it alone and worked through some illustrations. We came out that on a temporary thing like that, which is quite a different thing than Mr. Reagh suggested, if you would postpone your counting on it until the end of the twenty years, that maybe then you could go back and justify a credit from Social Security. In the early years, it is very difficult to see how you could say that two percent of these taxes, the total two percent, was for Social Security, and so much benefits were from Social Security, because there is quite a margin there in favor of putting money into the fund.

I haven't been able to get any convincing technique for building up the eventual effect upon the Social Security Act, leaving the two acts exactly as they are now, or show any credit or debit upon it.

Buck: In other words, if I understand your answer, it is that it would make no difference to the Social Security Act whether railroad employees are covered under the Social Security Act or go under this plan.

Williamson: Well, I can't prove it to myself that it makes much difference. All our data is pretty fragmentary as yet. Our Social Security data we haven't analyzed over there in Social Security very thoroughly. We have all industries and all commerce, with a few exceptions, covered in there. It is quite a different thing from taking one industry, planning the course of events in one industry.

I have heard a lot over this assumption that you could decide today a pattern of new employees in a single industry which you would believe would be carried forward. A single industry is exposed to all the hazards that face the railroad industry, for instance, by itself; whereas, for all industry together, it seems to me that feeding in the population - that the single industry is exposed to shifts and changes in pattern that are quite different.

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Mr. Reagh has used a pattern of new employees based upon actual material that was furnished him by Glenn. He comes out with this other thought, that the Social Security ought to be paid for letting the railroads pull out. I don't feel any convictions about it.

Reagh: Would you feel that that was just as consistent as the other one?

Williamson: The other one? Yes.

Buck: Well, my point.....

Williamson: We're a little hazy about the relationship of these two plans - a little hazy.

Buck: Here's the question that I was trying to get settled in my own thought. When this Railroad Retirement bill was announced, the President of a very large corporation in New York was quoted in the newspapers as telling his company union, which sometimes carries about 58,000 people, that he thought that the solution of their pension problem was to follow the railroads and to adopt a similar scheme for communication employees.

Now, the Social Security Board - and I am not speaking advisedly - but the thought was out that it was inadvisable to have other than a general coverage of all employees. Now, I have in mind this. Is there a distinction between railroad employees from the viewpoint of the Social Security Board and communication employees? In other words, the actuary of this particular company called me and he was quite concerned over the idea that their men should immediately petition Congress for a similar bill considering this problem. And I am trying to get in my own thought whether the Social Security Board has any objection to separating the railroad employees from the bill, either from a technical viewpoint or from a general viewpoint of administration of the plan, and would that be different in any way from excluding communications employees? I have in mind telephone and telegraph employees.

Williamson: I think you've got a very interesting question there, because here is the Clark amendment out for

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discussion, suggesting that when a single corporation has a pension plan that is just as good as Social Security benefits, it should be allowed to stand, and that the Government should carry - should subsidize them to some extent from taxes brought in. Trying to work out how the thing would function with all these random individual concerns has always looked to me a hopeless thing - that is, to take a single corporation.

The railroads are much larger. They happen to have higher ages, on the whole, than the general line-up in Social Security. At first blush, thinking only of the wages, it would seem that there would be a definite gain in the Social Security program to let them go out. I mean to - yes, let them go out, because you'd save paying these larger early benefits. Mr. Reagh shows that they are higher paid, and with our trick formula maybe it wouldn't in the long run save them anything.

But on your problem there, it seems to me that the Social Security position would be more logical if they were all in for the benefits of Social Security, and if then supplementary programs were adopted in addition; I think that their position would be much clearer. You go as far as you can go for a base benefit for all the people. Then, if a specific industry or if a specific employer wishes additional benefits for his purposes as a retirement plan - Social Security isn't a retirement plan; Social Security is benefits to the aged, according to the formula - but if an employer wants a retirement plan, then putting it in on top of the Social Security plan seems very logical.

Buck: As a staff plan?

Williamson: Yes. Here are the railroads. It seems to me that the most logical suggestion to take, if it weren't for the fact that you already have this Railroad Retirement bill passed a couple times, would be just that regardless of whether it is in or out, whether it means more money in the pockets of the railroads and the employees or not, they ought to be in Social Security and that the communications employees ought to be in Social Security. And then, on top of that, the employer and the group of employers, in conjunction, if it seems wise, and

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their employees should build up supplementary plans. That seems to me the most logical thing to suggest.

Buck: Well now, we had a meeting of the Board of Actuaries to which this was submitted and we had an ex parte discussion; and two of the members were impressed with this thought: that the taxes under the railroad bill differ by one percent from those under the Social Security bill; that the one percent was not sufficient to produce the extra benefits of the railroad bill over the Social Security bill in itself. Now then, it would seem that the railroads are getting a supplemental retirement scheme financed from one percent of the payroll which is more liberal than the communications employees can do themselves with one percent of the payroll. And the question has already come up in New York, at least in one town, that one large group of employees should immediately petition to get the same benefits. And I, in a personal capacity, have no answer for that. It seems to me they would do well to petition, because if they can get their prior service made up and get benefits for disability, I know of one pension plan that needs a little more money than it now has and we can from an actuarial viewpoint show a very nice little bargain.

Now that, to my mind, is the question that keeps going through my mind. That's the reason why I was trying to figure out if there was anybody that was prepared to say that this one percent additional tax is sufficient to cover the excess benefits over the Social Security Act.

Williamson: Well, it's a little more than one, because you've got some extra in the early years.

Buck: Well, I know, but you can count that up almost on your fingers. So it seems that this group is faced with a very fundamental problem that concerns Social Security Board primarily, and then it concerns all the other employers who want to run supplemental formulas.

Williamson: Social Security Board did state in a letter to the Railroad Retirement Board that they were somewhat in

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accord with the idea of having basic benefits, with the supplemental benefits coming in from outside. Now, what that exactly meant was not very clearly defined.

Buck: You say Social Security addressed a letter to the Retirement Board and they approved the Railroad Retirement Act?

Williamson: They approved the idea of a basic coverage including the railroad employees to the extent of Social Security benefits and taxes; it is a very general letter. It is very difficult to define exactly what it means.

Buck: The Social Security Board must know what it means. Can't we find out?

Williamson: I'm an actuarial consultant. I've discussed it with one member of the Board as to what it means - the present Chairman of the Board - and I've outlined the fact that when we tried to do it by building up two separate formulas and then hoping that eventually the two would sort themselves out all right, the intermediate steps aren't very simple.

Railroad Retirement benefits are not quite the same as Social Security. We brought in supplemental things. There is the point that if they fall short of Social Security anywhere, all right, up they go to that point. But they are not quite Social Security plus, as is their build-up here.

I am very hesitant about these two different types of plans, thinking eventually the accounting will clear it up if the two concepts are distinct, and I think they are, a little bit. Because Railroad Retirement definitely brings in the employer and all the employees. You have the recognition at once that you need to give adequate pensions in order to retire people. It had its start because the employees themselves wanted to get people retired. They wanted more jobs released. That particular argument is out of the picture today, but I think it is still a vital element: that employees thought that there would be jobs made by prompter retirement. The employers had various breeds of pension plans, more or less informal, but frequently regarded as very formal by the employees.

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Now, the introduction of the original program did think of the desirability of really getting people retired, something that would tempt them to get out. The present Act, based upon this agreement - as I understand, the agreement runs between labor and railroad management - has abandoned the theory that the employer is to gain by prompt retirement of old people. It seems to rest now that the employee has the right to retire under this, but that the employer isn't going to really use it for housecleaning, that it is optional for the man to pull out.

Buck: Well, who champions the theory that they should stay in after 65?

Williamson: The employees, the Brotherhoods. Isn't that right?

Glenn: Well, I don't know that they champion the idea that a person should stay in, but they are very much in favor of letting them stay in if it reduces the cost a little bit.

(Hearty laughter)

Williamson: And that point in there, that philosophy coming in, the attempt to evaluate what it permanently means, is what sticks me. I don't think that is a permanent situation. The railroads have a lot more jobs today than they had two or three years ago. The employees temporarily withdraw the thought that you ought to have a definite age of retirement. As plans work, when people aren't forced out there are always people who stay. Hell, they don't want to quit work. This man who has the right this year to retire or not to retire - of course he doesn't want to retire if he's getting two times what the pension would be. He wants to retire next year. When next year rolls around, the chances are he doesn't want to retire next year either, because the chances are he decides to do something else with his full salary. When there isn't the full retirement, I do think people stay at work later. When both parties reach the conclusion that the man can stay and the employee has decided he isn't going to use this tool for his own advantage, then I should think that it would reduce the retirement rate and the people would stay and work later.

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Buck: But aren't you building up a hypothesis that the last two or three years won't bear and the years prior to that won't bear?

Williamson: I'm not building up this, I'm just - I'll go right along with you, what you're about to say: that it seems to me it is only a brief period of years again before labor and management will be right back to be wishing to have a retirement plan functioning; and, though the rules may not seem to provide it, I have a feeling that people will be retired.

The Pennsylvania Railroad has a disability arrangement to retire people under 70. I think disability is a pretty flexible thing with the Pennsylvania Railroad and that a great many people are retired before 70 who aren't really disabled, and that the employees and the employers agree that it is desirable to retire them. So, on looking ahead, it doesn't seem to me that the present hypothesis of delayed retirement will actually continue to exist right along. I think it is momentary. I think that as time goes on, the tendency will be to retire earlier with pensions, and that the employee crowds will change their story and that the employers will get some methods of seeing the people are retired. So I have a feeling that this retirement age won't be so high as it would be if this hypothesis persisted.

Buck: Do I understand from your argument that you feel that under the seniority rule the retirement of a man at 65 will result in a promotion along the lines to his position, he being a senior employee, and that that will tend to force retirements earlier in the future than they have been in the past?

Williamson: I think whenever there is a time when there are questions of limiting people, that the men down the line will restate the position they stated when the Railroad Retirement Act was under consideration. It seems very clear to me.

Buck: Have you (Glenn) figured out any position on that?

Glenn: (Nods no)

Buck: Well then, as I understand it, the whole meeting is

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in agreement, first, that the present tax rates under the proposed bill are inadequate to support the benefits; and secondly, that under normal operation it is fair to suppose that the labor groups, the various unions of the men on the railroads, will reverse their position in respect to assuming - or warning people to retire.

Williamson: It seems so to me. It seems that is justified. That is not based on actuarial theory in any case.

Buck: Now, can we put in the record that the Social Security Board favors the Railroad Retirement bill in so far as to say that it does not in any way interfere with the normal operation of the Social Security Act, or is that too strong a statement?

Williamson: Normal operation....

Buck: What I am bringing out is, I take it that the Social Security Board now takes the position that if we eliminate a large group such as the railroads or the communications group, or the electrical industry, such as the power companies, that would not interfere with the normal operation of the Social Security Act. In other words, if we had a bill for the railroad employees and then we had another one for the employees in the public service companies, and another one for the communications employees, all of which are large groups, that that in itself wouldn't interfere. What I am trying to bring out is that....

Williamson: Well, the 25 million people....

Buck:that the theory that the Social Security bill should be uniform in its application to all people does not apply to groups like the railroads.

Williamson: I don't know. I'm not sure what the Social Security Board's position would be on that, the way you phrase it. We've only got two members of the Board at the moment, and the original agreement was Mr. Winant and Mr. Altmeyer - Mr. Winant isn't technically on the Board - it's very difficult to say how the Board specifically feels on the matter. When Mr. Latimer was going to be a part of the Board, pretty definitely

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the position was clear. Now Mr. Letimer is - I don't know whether he's on the - supposed to be on the Board or not; hasn't been approved yet.

Reagh: Mr. Altmeyer, I would say, definitely would feel that the coverage should be for all wage-earners.

Williamson: Yes, and the thought of their communication was that basically this railroad act was including the Social Security coverage plus. That was the thought of that letter: that there was a plus in here but that these people were essentially covered within the Social Security framework. Now, the way you (Buck) state it about withdrawing them - I don't think that statement would be Mr. Altmeyer's feeling. I don't know what Mr. Altmeyer's feeling is exactly on it.

Buck: Well, the only thing that I was trying to get here was that I know that the same group that is here assembled is going to be approached very definitely and concretely with a proposition for another group similar to the railroads - maybe not as great magnitude. But inevitably they're going to be approached, because I expect to attend a meeting where that is to be considered. And it has the endorsement of the head of one sizable corporation in the communications field.

Williamson: My own individual feeling is the other way around. My own individual feeling is that the Social Security program has application only if it is pretty broad, and that the gradual elimination of group after group is absolutely the wrong direction; that it is justified as a social program with broad spread and not if you get it down to too limited a field, even though a supplemental plan is built up under some governmental direction.

Glenn: I think there should be very definite resistance to the extension of this matter of pointing out special groups.

Buck: Well, what is the fundamental theory from a social viewpoint, or from the actuarial viewpoint - that is, the financial viewpoint - of having the railroad employees separate, that you can advance and still keep out the other group? What I have in mind is

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that we are meeting here and any conclusion that you gentlemen reach is going to be used against you. If you should say that the railroad employees should be under the Social Security bill, you're going to have that used against you by the railroad employees. If you should say that they should be excluded from the Social Security bill, you're going to have that used against you by these other groups.

Williamson: Of course, they were excluded by an Act two years ago. There was an earlier Act still.

Reagh: Before the Social Security Act was passed.

Williamson: Yes, before the Social Security Act came along. So they were all set before the Social Security Act was started; and there was this unconstitutionality of the first Act, but almost simultaneously with the Social Security Act this thing was passed - just a little afterwards, remember - establishing the starting arrangement for them. I think there is a special thing there that they had. They were going. I have also felt that with the old interstate commerce direction here they have been pretty close in here to Washington for a long time anyway, so it was quite natural that they should have gotten under way a little sooner. They've been early in giving retirement allowances, the railroads have. They've done quite a lot of it. They've had something which was a nucleus there, which got them going a little earlier. That's a fact.

While it cuts across my idea, as I expressed it, that the bigger the Social Security spread is the wiser it is, I shouldn't object to seeing them continue by themselves. But I should be disappointed to see a lot more come piling in as individual entities.

Buck: Is there any objection that you can raise to the others coming in?

Williamson: Yes. A single enterprise - I mean socially a single corporation, a single industry, has a different development of its employment, of its work. All industry is quite a big, fairly stable thing. Single industries, even though they may be very important ones,

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have different lines of development. With the Social Security program, actuarially I think you've got pretty close to the whole outfit as a pretty stable type of thing. Any one industry has much less permanency; people like to shift back and forth. I don't think we can determine a rate that is self-sufficient for an industry, or an industry over all time.

I don't think we can say, hedged about with all these limitations, that we have been reaching a static position, which we don't anticipate happening at all. If we do, then we are getting into much greater difficulties; we are being quoted. When we are quoted as backing up programs where we make certain statements of limitation - well, the statements of limitation are almost always discarded when the statement is quoted the next time.

And that, as you look at it - at these actuarial assumptions - perfectly good assumptions - we none of us kid ourselves that we know what the age distribution of railroads is going to be fifty years from now. But when we talk about rates in perpetuity, the implication is there - it gets about - as though we thought we were knowing exactly what was coming out of it.

Now, there's more danger in the single industry, single employer, than there is in the whole works. I don't know how aviation is going to develop; I don't know how railroads or the motor industry are going to develop in the future. But I do feel that the total social thing is fairly logical.

There is also brought into it the thought of the public interest. Looking at industry as a whole, we know that the public interest is definitely there. Society has got to support through relief what is left over; the railroad hasn't got to do it.

Buck: Well, do you think the thing to do would be to come to an agreement on a tax under this proposed railroad bill that would make it self-supporting?

Williamson: With this limitation, that these assumptions - we don't hold too much brief for them. Even when we say this is all right to start on, we still think these taxes are a - are subject to change later.

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- Reagh: Sure. I think that is true of every actuarial valuation that was ever made. Nobody ever attempted.....
- Williamson: The actuaries don't pretend to, but later on the quotation of what this is carries much further.
- Reagh: Periodical reports are made which indicate how far we're going astray and we can check that.
- Williamson: Now, the people who are not actuarially inclined wish to have us say that there will be a rate of 7 percent which will function for all time, definitely.
- Reagh: That's right.
- Williamson: And I doubt that we can make it. But I agree that we ought to have something a little safer than this.
- Reagh: If we must have a set of rates, however....
- Williamson: The thing is that these are taxes in one place and there are benefits in the other. The philosophy of those two bills is that here are benefits that the Federal Government is giving and over here are taxes which are being paid to the Federal Government, but implicit in that dual bill there is after all the thought that the Federal Government is doing something more than receiving and spending money, that there is a little bit of carrying responsibility. That's what scares Reagh. He thinks that there is some responsibility in there when we set down taxes here which we think are subject to change.
- Reagh: Everybody else does.
- Williamson: Yes, I think they are subject to change.that we seem to imply we consider them adequate; we seem to imply we consider them adequate.
- Now, I'd view that as a tax rate going up every three years by a half percent with no limit. That's the way I view it. You don't want to carry it on into infinity; but say we've gone fifteen years on a rate starting at five and going up to seven; if you thought of it as a rate starting at five and going up

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indefinitely, the lopping off to be decided when you got there, it's perfectly sound. There it stands, but it doesn't say you go on forever.

Buck: Can an amendment be put into the benefit section of the bill which prescribes the calculation of what these benefits are going to cost?

(Reagh hands Buck a paper)

Do I understand this is something that you propose?

Reagh: That is something that we are definitely asked to consider. That is a letter written to the Secretary from Mr. Pelley and Mr. Harrison. They raise certain questions. We might - perhaps you'd want to lay that aside for a little while until you develop certain other conclusions. You might read it yourself and determine whether or not you want to take it up now.

Buck: You (Williamson) haven't heard it?

Williamson: No.

Buck: You (Glenn)?

Glenn: I helped write it.

Buck: Well, will you put cotton in your ears?

This is to the Secretary of the Treasury. "Dear Mr. Secretary: We appreciate the spirit in which you have been attempting to reconcile the various interests involved in working out a railroad retirement system, and your cooperation in having the entire matter restudied by a group of actuaries. In order to make clear the exact points of difference, we should appreciate your putting to the actuarial group the following queries:

"1. On the assumptions used by the Railroad Retirement Board in making cost calculations, are the figures arrived at by the actuaries of the Board correct? We are particularly interested in the retirement age assumptions, which when combined produce an average retirement of 67.2 years. We

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regard those estimates as most conservative. A copy of the revised memorandum on costs submitted to us by the Board is enclosed. We understand that a copy of this memorandum has been submitted to the Treasury.

"2. If railroad employees were affected by Titles II and VIII of the Social Security Act, individual railroad employees retiring for many years in the future would receive old age benefits in excess of the value of the taxes paid by themselves and their employers. Using assumptions comparable to those employed by the Railroad Retirement Board in cost calculations, what is the average value of such excess benefits during the period from 1937 to 1970 expressed as a percentage of the railroad payroll?

"3. Given the assumptions of the Retirement Board, and assuming the availability of the excesses referred to in the preceding question, would the actuaries advise proceeding on the basis of the proposed agreement, with the understanding that both the labor organizations and carriers will agree to adjustments if and when actual experience shows such to be necessary?

"We believe answers to these questions will aid in the mutual understanding of our problem.

"

George M. Harrison

J. J. Pelley

"

Reagh: Would you like a copy of the memorandum referred to there, Mr. Buck?

Buck: Mr. Reagh, why do you present this letter to us? Is this something that is to be a subject of discussion?

Reagh: I present that to this group because it was specifically asked by Mr. Pelley that it be presented to this group. There was a covering letter, which is very short, which asked that that letter be placed before this actuarial group.

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- Buck: Well, gentlemen, you have heard the letter. What is your pleasure?
- Williamson: Have you already, Glenn, worked through the answer to that?
- Glenn: I presumed to tell them what the answer would be.
- Reagh: Well, you might tell them your answer, and then if I don't agree I'll tell you mine.
- Glenn: The third one there is the easiest to answer. I feel we ought to have 7 percent to start with, certainly.
- Buck: 7 percent to start?
- Glenn: Yes
- Buck: Instead of five.
- Glenn: Yes
- Buck: What do you (Williamson) think of that?
- Williamson: Well, I think that's good. I had this alternative thing - mine's more costly - that we start with five as now but go up by the same differentials that are in the Railroad Retirement Act, the whole percent instead of a half percent for these different raises, getting up to nine, leaving then the possible glory of a reduction in tax rate ahead in the future. Having these same differentials going from five up to nine...
- Buck: You mean going up by a one percent increase instead of a half, same as the Social Security. I think you said Railroad Retirement.
- Williamson: I meant Social Security.
- Buck: You mean going up as the Social Security.
- Williamson: Yes
- Buck: So you went from five to nine; so that's Social Security plus three percent all the way through.
- Reagh: That's right.

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- Williamson: And that seems to me a rational arrangement. I think the seven is safe enough to start with. I don't feel too convinced that the use of this mechanism won't exceed our guesses today, and I rather prefer this other arrangement really.
- Reagh: May I make a suggestion?
- Buck: Did your (Glenn) proposal increase it at $1\frac{1}{2}$ percent each three years?
- Glenn: No, a flat rate of 7 percent. No very definite commitment as to increase.
- Buck: The stenographer here is objecting. Since I'm only supposed to be....
- Reagh: To private conversations.
- Buck: Mr. Glenn here was championing this statement; or rather, I should say that he was explaining that his recommendation is that it should be 7 percent flat all the way through. I should say that 7 percent flat is a very much less valuable asset than a five percent running to nine.
- Glenn: It undoubtedly is. But the railroad employees object to this increase in rate, and the more it increases the more they object to it, on this ground: that the older employees are not going to pay this very long anyway, and they don't think it is fair to favor them with a lower rate as well as a short payment period.
- Buck: Well, isn't the difference between a 7 percent flat all the way through very slight from the rates already provided. As I would see it, it would be a decreasing annuity. The only difference between 7 percent flat all the way through and $5\frac{1}{2}$ percent running up to 7 is the decreasing annuity for a temporary period - wipes itself out. I should think it would be a very valuable asset, but I'm not speaking advisedly.
- Brown: It's equivalent to a level of four-tenths of one percent all the way through. And the five to nine scale...

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- Buck: It would be equivalent to raising the existing tax rates in the railroad bill four-tenths of one percent.
- Is that enough?
- Glenn: It is very likely not to be enough, but I don't think it would be necessary to make an adjustment for quite some period of time.
- Buck: Isn't the suggestion of Mr. Williamson - it seems to me that yours is a much more powerful one, this suggestion of the Social Security Board that this should be regarded as one tax plus another and one benefit plus another. It would render the comparison a little smoother. At the present time we would have a diminishing extra over the Social Security benefits and this leaves you a flat extra over the Social Security benefits - Social Security taxes. But eventually it means that these extra benefits of the railroad act are being supported by a one percent differential in the tax.
- Have you (Glenn) any figures that would indicate that those differences could be produced by that, if they were 7 percent running up by a half percent to 9, something of that kind - but just offhand, forgetting all the assumptions, just looking at the differences in benefits.
- Glenn: At the same retirement age, you'd have to have a difference of about two percent payroll.
- Buck: You would?
- Glenn: (Nods yes)
- Buck: That's using the same assumptions as to the retirement - that everybody will retire at 70 that's in good health.
- Glenn: Well, that - I was looking into the ultimate ratio of benefits.
- Buck: Oh, I see. Well, if the ultimate ratio of benefits is going to be a difference of two percent, oughtn't we to tie that in some way? In other words, I like

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Mr. Williamson's argument here that there is an implication that once you get off on a thing like that, this - that there ought to be something that says in the bill that the tax is going to support it. Otherwise, you're just giving an invitation to every other group to separate from the Social Security Act; whereas, if the benefit - the additional benefit is supported, you have a condition where there is no particular advantage for an industry to separate from the Social Security bill, and you get back to the only thing that is offered to the private employer, and that is the payment of full cost of the supplemental benefits, and that, I take it, is the aim of the Social Security Board

Williamson: Something like that.

Buck: What is your (Reagh) position on it?

Reagh: Well, I like the five to nine. I think it is a more logical basis. As I said, if the equivalent, starting at 7, 7½, 8, 8½, arriving at 8½ on January 1, 1946, rather than reaching the top in '49 - that is roughly equivalent.

Say, here's an interesting table that is along that line, which agrees with the statement you (Glenn) just made as to the ultimate differential between Social Security and railroad benefits - agrees rather closely at least. But this table, after all, is based on figures which you gave me and is on a present value basis all the way through.

Williamson: Is this using 67?

Reagh: That's using 70 for healthy lives.

Williamson: 67.2 - is that what healthy and then disabled - does that come out to 67.2?

Reagh: I never checked that. We accepted Mr. Latimer's assumptions as to retirement age throughout all our calculations.

Williamson: I'd feel safer with something of this sort. Disability plus flexible retirement age are two rather indeterminate qualities, and I don't think immediate past

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history can ever be taken with a hundred percent credence - I don't care when it's taken place. - on those things, on the disability and the other.

- Buck: Mr. Glenn, do you think the proposal of Mr. Williamson that the rates should be five advancing at one percent intervals to nine, which I take it has your (Reagh) support, is indefensible?
- Glenn: Indefensible in what sense?
- Buck: Represents too high a contribution on the basis of the Railroad Retirement Board's calculations?
- Glenn: It does seem a little high, yes.
- Buck: Do your figures support a conclusion?
- Reagh: Well, as a matter of fact, upon the basis of the revised schedule which we just received from Mr. Latimer of estimated pension payments under the railroad plan and compared with the estimated year-by-year benefit payments which would be paid under the Social Security plan, the Social Security benefits agree in present values with the figures furnished by Mr. Glenn, so that the whole thing is in adjustment with Mr. Latimer's figures. A rate of five to nine would fall short of paying the full cost of the bill on the basis of the Railroad Retirement Board's own assumptions with respect to retirement and everything else.
- Glenn: I don't see that. What is the five to nine average?
- Brown: 8.22 percent is the level amount.
- Glenn: I think that's too high.
- Reagh: On these figures, Mr. Glenn, which I'd like very much if you'd check specifically and point out any objections which you have to the basis of them, because these figures show a level rate of 8.33.....
- Buck: The ones in here?
- Reagh: Yes.
- Brown: Don't you think you should mention right now the fact that out of that total tax rate, though, there

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is the Social Security rate, which is more than enough to provide the Social Security benefits. I don't believe Mr. Glenn has got that.

Reagh: Well, it is based on this general proposition: that we are adding to the cost of Social Security enough to pay the benefits in excess of Social Security benefits.

Buck: In other words, you're taking the 6 percent of Social Security first and adding the supplementary benefits of the Railroad Retirement Act.

Reagh: Yes.

Williamson: This is where the 800 million comes in.

Brown: Yes.

Williamson: You're letting the railroads pay the 800 million.

Reagh: I think it is generally agreed that they should be willing to pay that differential if they are willing to take the differential if it is in their favor.

Williamson: I think they're right.

Buck: In other words, as I understand your argument, Mr. Reagh, you make the point that the railroads, the same as any other employer, should pay its contributions to the Social Security Act and get the benefit of the Social Security Act, and that if they are in a separate plan they should pay the same contributions plus the cost of supplemental benefits; and you say that if they do that, on the assumptions made by the Railroad Retirement Board as to retirement age, there is an 8.22 level....

Reagh: 8.33

Buck: ...8.33 level rate required. I take it that Mr. Glenn says there is an 8 percent, or that the supplemental benefits represent a 2 percent level rate difference. A few minutes ago I think you made that statement.

Glenn: Yes

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Buck: So you're within .33 of a percent.

Reagh: I believe, Mr. Buck, that if Mr. Glenn would go over these figures, he'd come to the same conclusion, unless he wishes to change his figures that he's previously used.

Glenn: That is, if you're going to assume that the railroads are going to pay for the privilege of keeping out....

Reagh: I take it they'd like to get the benefits but they wouldn't want to pay the cost.

Buck: May I ask if there is any disagreement here - does anyone voice disagreement with the fundamental proposition that the excess benefits of the Railroad Retirement Act over those which would be provided for the railroads under the Social Security Act should be represented by an extra contribution over and above what they would pay under the Social Security Act? Is there a....

Williamson: I subscribed to that thesis once.

Buck: That is your (Reagh) position?

Reagh: I subscribe heartily to that thesis.

Buck: Do you (Glenn) take that same position?

Glenn: I'd object to it if it cost the railroads anything, yes.

Buck: Would you object to it in respect to the electric light companies?

Glenn: Well, I'm not the guardian of the solvency of the Social Security fund. It's purely an academic question.

Buck: Well, I'll rule the chairman is out of order.

Reagh: May I ask Mr. Glenn a question? Would you consider yourself guardian of the railroads in this case?

Glenn: I do there, yes.

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- Buck: Is there anything in the Railroad Retirement bill that requires any estimates to be made? I think in the Social Security bill there is a requirement that the Social Security Board or the Treasury or someone should make estimates of cost periodically.
- Williamson: It's in there too.
- Buck: It's in here too?
- Williamson: Not of costs, but of the appropriation of the reserve fund.
- Buck: I see.
- Reagh: That is a later copy I haven't seen as yet.
- Williamson: Well, I got this yesterday from Mrs. Anderson, Mr. Latimer's secretary. I'm not sure what the phrase means any more there than I was in the Social Security Act.
- Reagh: Mr. Buck, do you mind if I ask Mr. Glenn another question along the same line? I should like to ask Mr. Glenn if there is any reason why the railroads should be placed in a different position in respect to Social Security than all private pension funds are automatically placed because of the Social Security Act; and I mean by that that all of these private pension plans are providing benefits supplementary to the Social Security benefits, and they have to pay the cost of benefits in excess of Social Security benefits which they grant. Now, why should the railroads be given any special consideration that you aren't willing to concede to even other utilities?
- Glenn: Well, there are reasons that have been mentioned. First of all, the railroads were here first. They planned before the Social Security Act was in action. Secondly, the railroad industry is a more or less permanent institution, whereas no individual employer is. That's a reason.
- Buck: Do I understand from that answer that because the railroads were first, you are making the argument that they should have a plan which depends on the Social

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Security..... No, you don't make that argument. You make the argument that the Railroad Retirement plan should be self-supporting in itself regardless of Social Security.

- Glenn: And I think that if they wish to have any legitimate right to stay and carry out the Social Security set-up, particularly since the Social Security Act does not cover all gainfully employed people - other very broad groups have been excluded.....
- Reagh: Well then, I take it that you would admit that you should claim no differential in favor of the railroad pension plan.
- Glenn: Well, as a matter of general reasoning or as a practical matter?
- Reagh: To be consistent.
- Glenn: I'm afraid the world is not very consistent, so why should I be?
- Reagh: I think you would again admit that there is no differential.
- Glenn: On a permanent basis, I can't very well see that there is, if the taxes under the Social Security Act are correct and if these assumptions as to retirement, basic assumptions, are correct.
- Williamson: There is a further difficulty of assuming the Social Security to be a basic part of this, and that is that every amendment to the Social Security Act immediately affects basic benefits here, and you have to redetermine what your difference is with each amendment to Social Security, and we probably will not be without amendments to Social Security.
- Glenn: I think it is not a desirable proposition for the railroads to tie up with the Social Security Act. They are getting connected up with something over which they have no control. As a matter of fact, railroads for a very long time took the position they wanted nothing whatever to do with the Social Security Act. It was only when they were lured into a close proximity to the Social Security Act by the

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promise of cash benefits that they had reason to consider being connected with it.

- Buck: Well, I take it that it isn't our province to go into the expediency of having the Railroad Retirement Act as contrasted with including it in Social Security. My purpose in bringing that up was to try to orient myself as to how....
- Williamson: No, it is, though - it is a part of the story. The fact of the relationship between the two Boards and Mr. Latimer's and Mr. Winant's and Mr. Altmeyer's general agreement that the basic Social Security benefits were a part of these benefits, is a permanent point which enters into the discussion.
- Reagh: It was brought out specifically in Mr. Latimer's original memorandum, in which he suggested to the Treasury - suggested that very relationship.
- Buck: Now, we're all in agreement, I take it, that the present tax rates of the railroad bill are inadequate.
- Glenn: (Nods yes)
- Williamson: Yes, I am.
- Buck: Mr. Reagh and Mr. Williamson propose that the suggestion be made that the tax bill be revised to change the rates from five percent progressing by one percent steps to nine.
- Reagh: (Nods yes)
- Buck: And Mr. Reagh takes the position that that rate itself is inadequate if the assumption as to the retirements is not sufficiently conservative. Mr. Glenn takes the position that the rate is more than adequate.
- Glenn: I say more than adequate if the railroads were put on an entirely separate plan.
- Reagh: You didn't quote me quite correctly. I say that that rate in itself is inadequate if you accept all of the Railroad Retirement Board's assumptions and consider the

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Social Security benefits together with the railroad benefits and require the railroads to pay the cost of the excess benefits. It is inadequate on that basis, even accepting the retirement age of 70 and all of the other assumptions.

- Buck: Well, is there an agreement that the rate of five percent running to nine would be the fair rate if we regarded railroads the same as other employers, but an excess rate if we regarded the railroads as we do farmers, as a privileged class outside of the general group of industrial and public service employees?
- Glenn: I agree to the latter part of it, although I don't know a great deal about the first part.
- Williamson: What is the average wage as entered in here?
- Glenn: About \$1600.
- Williamson: Because that is very pertinent. If this was \$1200, there would be quite a different relationship, because the Social Security has assumed around - oh, we accepted \$970 at first and then a year later revised it to \$1100.
- Reagh: \$1100 is the one we used in the latest figures.
- Williamson: But if by any chance the railroads would be down to the \$1100 figure, the relationship would be quite different.
- Reagh: Except that if the railroads are going down to an average of \$1100, the present other groups are going down too. There will be a disparity there regardless.
- Buck: Well, in order that we might reply to the inquiry that has been put up to us at this meeting, might we formulate/answer to these first and then go on with our procedure? Is that agreeable to everyone?

The first question: "On the assumptions used by the Railroad Retirement Board in making cost calculations, are the figures arrived at by the actuaries of the Board correct? We are particularly interested in the retirement age assumptions, which when combined produce

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an average retirement of 67.2 years. We regard those estimates as most conservative. A copy of the revised memorandum on costs submitted to us by the Board is enclosed. We understand that a copy of this memorandum has been submitted to the Treasury."

Is there anybody prepared to offer an answer to that question?

Reagh: Well, I should like to ask Mr. Glenn if he believes - he agrees with the railroads that the retirement age assumptions used are most conservative.

Glenn: I don't agree with it, no.

Buck: Well then, I take it the answer to that question is that it is the opinion of the group that the assumptions as to retirement age are not conservative.

(Reagh, Williamson and Glenn
nod affirmatively)

Buck: Does everybody subscribe to that?

(All nod again)

Buck: Now, the second question is.... Pardon me, before we pass that - "On the assumptions used by the Railroad Retirement Board in making cost calculations, are the figures arrived at by the actuaries of the Board correct?" That's a pretty general question. I guess we answer when we just simply say that we don't believe....

Reagh: The assumptions - I really don't know.

Williamson: I think if you make a statement on assumptions and don't answer the first part of that, it's all right.

Buck: The second part: "If railroad employees were affected by Titles II and VIII of the Social Security Act, individual railroad employees retiring for many years in the future would receive old age benefits in excess of the value of the taxes paid by themselves and their employers. Using assumptions comparable to those

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employed by the Railroad Retirement Board in cost calculations, what is the average value of such excess benefits during the period from 1937 to 1970 expressed as a percentage of the railroad payroll?"

I take it we have no answer to that.

Williamson: The answer about that tax business is that, even so, the taxes paid in behalf of the earlier retirement people in this program produce surprising benefits.

Buck: But that is no answer to put down to that letter.

Reagh: Of course, the answer to that is that it is sort of a misleading and unfair question, because my answer to it would be, "If there is any difference or any average we could give there, so what? It means nothing."

Williamson: I struggled with comparing figures on that Railroad Retirement against the Social Security, and here, with the range of three or four of the elements coming in, we said, "Well now, let's imagine this fellow is working when he's away from the railroad and he's working for someone else covered by Social Security. Is the work that he's going to do for the first three thousand of salary outside of the railroads and thereby all the padding non-usable, or is all the work that he's going to do for the first three thousand done within the railroads and therefore usable within this comparison." And I decided I didn't know as to how to allocate that three thousand padding in Social Security. That's the one place that anything much comes in here to talk about.

Then we went through and we tried several other assumptions. Myers - I had him do very radical things on this side and on this side, and we got about four different answers for all sorts of individual cases, which is - the implication there is that the individual taxes are paid against the individual in each case and the benefits coming to the individual are directly comparable with the individual's taxes. I doubt that myself. In Social Security I've got a theory now that the employer's taxes are not for each individual, but they are in toto, and that they are paid where they got together....

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Reagh: Absolutely correct.

Williamson: Which makes the figuring again a little awkward, because then you've got to decide how much you're allowing to each person.

Buck: Well, is our answer to that that we are not in a position to....

Reagh: Well, I'd like to make an answer to that question.

Buck: Ah, there we are.

Reagh: If the group here could agree, I should like this group to agree that that method of comparison is not consistent with the basis used in computing the cost of the railroad bill.

Glenn: In other words, because that is a temporary thing.

Reagh: If you must compute the so-called savings because of the exclusion of the railroads, then let's compute the cost of the railroad bill in identically the same manner. There you would find huge deficits in the railroad plan, if you used the identical method of showing either savings or deficits.

Now, I think that we should, as a group of actuaries, certainly come to an agreement that the method should be thrown out the window.

Buck: Our answer is that in view of the fact that under the Social Security Act and under the Railroad Retirement Act the benefits and contributions - the benefits and taxes are so arranged that the benefits decrease and the taxes increase, it is fair to suppose that under both the Railroad Retirement Act and the Social Security Act the benefits paid to those retired during an arbitrary period in the immediate future will, depending on period taken, exceed the value of the taxes collected on account of the same employees.

Reagh: I'm not sure that I got that.

(Reporter reads above statement)

Williamson: Well, you've got the point there that when you come to the individual, if you're thinking about it there - now we're back to the Social Security - as to what

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those are - but anyway.....

- Reagh: No, we're going to compare that with some other cost figures, so that if we make a comparison we must compare it with a set of figures calculated in the same way.
- Buck: Well, I was trying to avoid the technical presentation as you are making it. I'm just trying to bring out the fact that the Social Security bill, in a measure, by reason of the first three thousand dollar salary computation, and the Railroad Retirement Act, by reason of allowing prior service credit, must as an actuarial arrangement, wherever you have the level rate, result in those that retire in the immediate future getting out more than the contributions they have made.
- Reagh: And of course that is true of all pension plans.
- Buck: And that is true of all pension plans, yes.
- Glenn: This supposed differential that they pulled out there is probably a rather artificial thing.
- Buck: "Given the assumptions of the Retirement Board, and assuming the availability of the excesses referred to in the preceding question, would the actuaries advise proceeding on the basis of the proposed agreement, with the understanding that both the labor organizations and carriers will agree to adjustments if and when actual experience shows such to be necessary?"
- The answer is, "No, unless the agreement is incorporated in the bill." That's pretty...
- Reagh: Pretty snappy answer.
- Buck: I'm arriving at that answer - and I don't want you to phrase it that way - on the evidence that I take has been in the hands of you gentlemen, and you all agree that the tax rate is inadequate, either taking the Railroad Retirement bill by itself or taking it in conjunction with the Social Security bill. Now, I'm depending on you gentlemen for that answer. I'm not trying to put anybody in the hole. Now, does anybody else - does anybody offer....

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Williamson: May I read that?

Reagh: What is our answer? I'm not sure that I have it clear.

Buck: I think he wants a "yes" or "no" answer to the third question. That is what I presume he wants.

Brown: He starts that question, "Assuming the availability of the differential mentioned above," though.

Buck: Yes. Well, that's a very highly controversial matter, as to whether there is any differential available, and one set of calculations necessarily gives you a differential, depending upon the periods you use, and the other one, over the longer period, won't.

Reagh: You don't think we should as a group here point out any inconsistencies about using that type basis for showing a differential.

Buck: I don't see how we can without reflecting on somebody that is involved.

Reagh: I don't want to do that, certainly.

Williamson: The earlier thought was that age alone should give a differential; that was the thought that came in here. Here you had a very much larger proportion of people going on pension in the railroads than you had in the general run, and that you ought to have, therefore, an advantage to the railroads. I think it was logical; it looked reasonable, just taking it by itself.

Then, going from that, the further development became a little less rational, as the benefits...

Buck: We can't develop your theory without assuming that you're going to throw the Social Security bill out of whack. The tax rate is going to be too high or too low, depending upon whether you produce a surplus or deficit. So I think it's better to let a sleeping dog lie. That's my impression, since we're all agreeing.

Now, if that disposes of that letter and somebody is going to write a nice answer, I take it - you (Glenn) wrote the letter; why can't you answer it?

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- Reagh: You should write the answer, Mr. Glenn.
- Glenn: Write my own answer?
- Reagh: I think you had the answer to begin with.
- Buck: Now, aren't we supposed to come back with some kind of a....
- Glenn: Definite program.
- Buck:definite program, yes.
- I take it that you (Glenn) feel rather disinclined to favor the suggestion offered by Mr. Latimer - I don't mean Latimer; I mean...
- Glenn: Mr. Williamson.
- Buck:Mr. Williamson and Mr. Reagh.
- Glenn: Yes
- Buck: What would your proposal be? A flat 7 percent from the outset?
- Glenn: My proposal is to refund all taxes collected prior to this year, draw an initial rate of 7 percent without any scheduled increases, but be careful not to commit ourselves very far as to whether that is going to be sufficient for more than....
- Buck: How would you put that in the bill - about committing ourselves very far?
- Williamson: Can't.
- Buck: Simply say that the tax should be refunded and the rate be 7 percent, and this tax "shall be subject to change from time to time by the Congress."
- Glenn: I think the way they do it in the present Retirement Act is to make the tax for a specified period.
- Williamson: And make no provision for the future.
- Glenn: No - forcing a reconsideration of it at regular intervals.

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Williamson: Decennial?

Glenn: I should phrase it this way: that the tax rate put in the bill should not be a permanent rate applying hereafter, but should be for a specified period and should be extended for specified periods.

Buck: That puts it up to Congress to decide whether to tax the railroads at all, and if so whether to raise or lower the rate, rather than to the actual liabilities, which I understand for constitutional reasons you don't want to bring in the picture.

Glenn: Yes

Buck: But isn't that a rather dangerous thing to suggest - just a temporary tax like that? Wouldn't it be better to put in a tax along the lines of Mr. Williamson's suggestion? Because there are going to be very powerful influences to keep that tax below what it ought to be; that will be concentrated, whereas the general public would be making up the difference, if any, and will not be concentrated. Wouldn't it be better to put in a tax such as he suggests and then let the concentration come down where it may? Otherwise, it seems to me you are putting the Congress in a very difficult position.

Glenn: Didn't you put them in a difficult position when the tax was up for renewal a couple months ago? They called on the Railroad Retirement Board to state whether the tax should be continued at the same rate or not. The Retirement Board told them they should on the ground that we had no particular reason to do otherwise in view of the pending litigation.

Buck: Well then, I understood that your proposal is that we recommend a change of the rate to 7 percent to run for a period of two years or three years?

Glenn: I don't know just what period, but for a definite period.

Williamson: Well, of course, that proposal averages up roughly with this thing for the next fifteen years; this five to nine over a fifteen year period, three years

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in each thing, would be equivalent, so that for the first fifteen years, roughly, the income would be almost the same. In fact, we'd be a little ahead of the game on the theory of the interest on those early excess payments.

Glenn: This flat rate is definitely more acceptable than the scale-up rate.

Buck: It is?

Glenn: Yes

Williamson: Well, there is a precedent. Your employees in general on pension plans go in with the flat rate while they are in, even though you differentiate by employees. The hope is that you can set it for them. So that you do have that feeling on the part of the employees; they'd like to be definite.

Reagh: It seems logical ordinarily in a private pension plan to set at least the employee contribution rate at a definite rate to stay, but of course the balance has to be paid for by the employer, whatever it may be.

Williamson: Oh, they don't....

Glenn: The labor organizations were so much opposed to the increasing rate that they had me figure out a contribution rate for the employees depending on their age on the initial date, such that anybody who was fifty or over would immediately have to pay a 3½% rate. They wanted to favor these fellows at higher ages by a lower rate, and the labor leaders said if they would be so brash as to go down on an initial rate of 4% scaling up to 7 or 8 - scaling up to 7½ or 8, they'd be thrown out.

Brown: May I ask a question, Mr. Buck? I'd like to ask Mr. Glenn if the proposed scale-up in tax rates which was in the bill sent over here to the Treasury had received the blessing of the employee organizations. That proposed bill, which I understood was the result of their negotiations, did have the scale-up from five to nine, and now we are told they agreed to a scale-up rate.

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Glenn: They agreed to it very reluctantly.

Brown: I see.

Williamson: There's one other point; they haven't had, so far as you know, recently, an actuary, have they?

Glenn: No.

Williamson: That's the employees. The employers haven't used theirs very much either recently, have they?

Reagh: Well, Mr. Glenn, if I understand what you have said before, your calculations, taking the railroad bill by itself, without regard to Social Security, show a 7.11 percent, which you also say is based upon assumptions which are not conservative. In that case, wouldn't you prefer to start out with 7½ percent then, and at least go above rather than below the rate indicated by your calculations?

Glenn: Can't put in too much money to suit me, but I don't think you can get more than seven to start with.

Buck: Why would there be objection to having a 7% rate increasing by a half percent to 9 - 8½, I mean. The point that sticks with me is that apparently the difference in these benefits is 2%; now, how in the world can you go ahead and recommend to Congress a plan which gives the railroads greater benefits by 2% without putting the Congress and putting the President and putting the Railroad Retirement Board and Social Security Board on the spot in respect to these other groups? Now, I - I'm not throwing a wrench - trying to throw a wrench. I'm trying to get this - that I know that I personally have got to face this argument in New York within the next month with a big labor organization, and they say, "Why shouldn't we have it?" Now, I don't see that you can tell them anything except that "you ought to go get it" if they can get a differential which is better than the contribution they have to pay.

Williamson: They haven't such widespread contacts, have they?

Buck: I know, but that's what we're here for. After all,

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we're supposed to be practical men as well as actuaries, and we're all experienced in this.

- Williamson: Well, isn't that a part of the answer - that they're not so apt to push that thing through?
- Buck: Well, I don't know about that "so apt to push this thing through" because I have an idea that when they get going they've got some strength. One of these unions had 37,000 members the last time I worked for them.
- Glenn: I doubt that that group could provide a retirement scale of benefits for the proposed Retirement Act tax rate or my proposed rate of 7 percent. Railroad employees average about 45 years in age. Prior service averages around 17 years. And I am pretty sure that their group doesn't have characteristics like that.
- Buck: They enjoy long life; I know that.
- Williamson: Without the railroad hazard.
- Buck: I was talking about the railroad employees; they live forever.
- Williamson: Well, there is an excellent thing - actually the mortality used was the combined annuities for your healthy lives instead of a population table.
- Glenn: My annuity table gives annuity values of about two percent over the table which represents the actual experience of railroad companies.
- Williamson: I wouldn't think you'd object to a rate for a given number of years. As far as that inadequacy is concerned, I think if five to nine is all right for fifteen years, well, seven would be adequate for fifteen years. But is that then regarded, whether we say so or not, as pretty near the belief that that is the adequate rate?
- Reagh: I think any report that this group should make should state specifically that they do not believe such a rate would be adequate.
- Williamson: Oh yes, so do I. But would the just introducing one rate in this thing be generally regarded by Congress

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as a permanent rate?

Reagh: I think it would.

Williamson: My thought is that you can't lug into the bill the suggestion that probably it is going to go up the next time.

Buck: Well, I'd like - I like the suggestion that you (Williamson) make, because it seems that comes more nearly getting out of the woods than anything. Results in elbowing the one percent differential.

Williamson: There wouldn't be any difficulty practically in twenty years. If it then has shown to be too much, there should be no difficulty in putting through a reduction.

Reagh: Certainly you don't need to wait twenty years to find out whether seven percent - you don't have to wait until the fund is exhausted or any theoretical fund exhausted.

Williamson: You will know a lot more about it in twenty years than you do at the end of five years.

Reagh: I think you'd know very definitely at the end of five years whether or not seven percent had a chance.

Williamson: The way they actually retire, even the next five years, I'm not so convinced - is not indicative.

Glenn: I think there is no question that the higher initial rate is much more acceptable than the higher ultimate rate.

Buck: Well, do you think it is the practical thing to put a seven percent in and leave the bill hanging in the air as to whether that rate needs to be increased? On the basis of your figures, it would need to be increased. On the basis of Mr. Reagh's figures it would need to be increased. It seems to me the minute you suggest a seven percent rate and say that it is inadequate, you leave a kind of a doubt in the minds of the employees and they'd fear an increase like that more than a stated rate. Because I should think they'd have - they'll come very nearly to keeping the rate. They will not let you increase that rate very much

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after you once set it without a definite scale-up. They'll be in the same position as policemen and firemen are in an ordinary town. They are a concentrated group to put the pressure on politically. It is very difficult to meet from an actuarial viewpoint.

Glenn: There seems to be no particular fear of the temporary rate of seven percent under the present Act, although we told them when they were holding hearings on the bill that the particular act would very likely cost them ten percent.

Buck: This new act is much less liberal than the original act, is it?

Glenn: It is somewhat less liberal.

Buck: Well, if you put out the first act and told them ten percent, you can't very well tell them you've changed your assumptions and reduced your cost. Otherwise, they'll want you to change your assumptions again, won't they?

Glenn: Well, no, we can say that the present Act has a compulsory retirement age; it also has a provision which doesn't exactly compel an employee to retire at 65, but certainly strong persuasion.

Buck: You'll put it on the ground that people will stay in longer?

Glenn: Yes

Buck: I think that is a safer one to use.

Glenn: And put it on an even stronger basis than that; it is the opinion of the railroad employees and the railroads that our previous assumptions would not be justified under the present Act.

Reagh: We had previously agreed on that. There is no question about the actuarial figures that Mr. Glenn has on the basis of the retirement age of 70 for healthy lives, and I think that the act itself - new bill - definitely justifies a new assumption with respect to retirement age. However, we have also agreed that the assumption

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that the healthy lives retire at the age of 70 is definitely not conservative.

Buck: Well, what you say here - I'd go along with Mr. Williamson's suggestion. But I - it seems to me you've got to do something. Otherwise, you put yourself in a very indefensible position on your seven percent. I mean your own statements - I'm not trying to get you in a corner; I don't think we're here for that purpose. But I'd like to see something here that ultimately would carry some differential that is more than 16 2/3 percent.

And I haven't any doubt in my own mind, from the way they tried to give away the job of the engineer on the 20th Century - the other engineers, they were all aiding and abetting on having him examined to see whether he's got any heart trouble; and what all they don't do to get his job, because they all bite off his job the minute he vacates it. I can see, when this gets going - I wouldn't be at all surprised to see it push it down to 67. I've seen so many places where they pushed down the retirement age before they fully found their accrued liability. So I certainly wouldn't want to champion that 70 year business.

And from your (Glenn) viewpoint it seems to me it would be much safer to start out our way. I think that this is coming to us; now, the railroads haven't employed any actuary, as you say, but the Government is doing all the work.

Glenn: Well, the railroads have.

Buck: Yes, but not in connection...

Glenn: Yes, actuaries.

Buck: Despite that, they go on and say the rates - it seems to me that Breiby is working in the interests of having the rates held just as they are, because it seems to me....

Glenn: Well, I think Fackler and Breiby were very careful not to commit themselves publicly, but their private opinion seems to be...

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- Buck: They would advise the railroads to go into it.
- Glenn: Privately I think they agree with me that this is a very....
- Buck: ...very good buy. Well, it seems to me it is.
Can't you modify your suggestion somewhere to meet these arguments and we'll get to a conclusion that will be unanimous?
- Glenn: Well, I can't very well advocate a higher rate at the present time on the basis of any information that we...
- Williamson: Haven't you checked this, and shouldn't I again shoot Myers over to help out with it, so that we jointly review their data here which has been submitted? These figures are terrible. Starting in at 2.07 - extra, I mean - extra tax rate of 3.16 down here, to 3.80, coming down at the end to only 2.88 above that. That's Column 4.
- Buck: I see that, but that is....
- Williamson: I know that still has got this differential business in there. It isn't as bad - take the next one - doesn't have the differential in.
- Buck: As I read this, does this tell me, or is this designed to tell anybody, in Column 4, that we need the Social Security Act taxes plus the tax shown in Column 4 to cover the differential?
- Reagh: Yes, that is based purely on the assumption that we combined Social Security and this thing, treat railroads as a supplementary system.
- Williamson: But your excess figures are awfully high for rates that are as little above Social Security - that is, when we get them finally to the seven against six, when this shows that you ought to have three percent more.
- Buck: Yes, but seven and six, to my mind, is entirely too close, because my - I don't see how you can support those benefits by a differential of one percent. And - I am just speaking by proportion - if you liberalize

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your benefits as much, add a disability benefit and a more liberal retirement benefit, and finance the whole difference on one percent, you'll build up an age 60 retirement here before long. Because you can disable a railroad employee by these plucking boards. They still have plucking boards, I take it, or they did have them on the New Haven when I worked there.

Williamson: Your earliest retirement disability would be 50, wouldn't it, or maybe 48?

Glenn: Maybe 45.

Buck: Well, what I see is that you are giving them a disability benefit which, in my experience, with a 65 retirement age, is a very difficult benefit to finance with one percent of the payroll; and then you're giving them a more liberal service retirement.

Should we put in - if we put in one percent for disability alone, I would.... You know, the German railroads ran their disability benefit for all it was worth. One percent wouldn't cover their disability alone. And how many railroad men that you see who have lost a hand or an arm....

Glenn: Doesn't necessarily entitle them to benefits.

Buck: No, it doesn't, but once they start coming after you, you'll be in a very difficult position, I should think.

Glenn: They had a provision in there, which you may or may not know, that if a person works anywhere during the month he is not entitled to any allowance for that month.

Buck: Suspend his allowance, yes.

Glenn: In other words, our disability provision here is even more restrictive. Of course, the Board has the power to approve or disapprove of these claims.

Buck: Yes, but won't you have to carry on the ordinary disability that the ordinary industrial organization expects? In other words, it seems to me the Government is in the position of a carrier once you have the tax rate fixed; that the shoe is then on the other

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foot. The minute you can get an employer in the position where all he has to do is recommend disability and the employee that is going to get his job will acquiesce, so you get two employees neutralizing themselves more or less, I should think you'd be up against a very difficult thing. The very thing that keeps the insurance companies today from writing disability is not because you can't successfully write disability on the pension plan, but because you've got the employer too willing to recommend disability. Where he's running his own fund, he won't look at it, but where he's running a fund somebody else is paying for, it's a different story.

- Glenn: Well, we have quite a number of disability cases recommended by the employer under the present Act, and even with our more liberal disability provision we have turned down a fairly large number of them.
- Buck: Well, are we going to have any motion? Does anybody make a motion that we're going to debate?
- Glenn: Well, I'm still in favor of refunding all taxes collected previous to this year and amending this proposed tax bill to call for seven percent for some specified period.
- Reagh: Well, may I ask a question on that? Are you speaking now from the standpoint of what we can get from the railroads or thinking about their willingness to accept, or are you speaking as an actuary of what should be done?
- Glenn: Well, it is a very practical suggestion. I know that's about all we can get out of it.
- Reagh: You don't think that there is any chance at all that the railroads would give up these back taxes - that we must rebate back taxes to satisfy them?
- Glenn: I think we'll have to rebate them in order to draw the railroads into this proposition.
- Buck: Is that a matter that is referred to us? Do we have to give an answer to that or just let it stand?
- Glenn: It is a matter which has concerned Mr. Morgenthau.

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- Reagh: I'd say Mr. Morgenthau is very much concerned over that, because he has already anticipated those revenues in the 1937 budget, which therefore upsets our financial picture for '37 and '38.
- Buck: Yes, but if those taxes were collected, would they not be an asset of this fund?
- Reagh: It would if there were any reserve provisions in the bill. Apparently we are setting up a system here which collects taxes on a reserve basis but there is no provision for a reserve.
- Williamson: Yes, there is a reserve, just like Social Security.
- Glenn: Present Act doesn't set up any reserve, and there is no doubt we use some of the money we collected from the railroads to balance the....
- Buck: Has the money been collected?
- Glenn: I thought it was all impounded.
- Buck: Any money been collected from the railroads?
- Glenn: Very little. I should be very glad to see a higher initial tax rate, but I just haven't any facts that...
- Buck: I don't see how you can refund it if you can't collect it.
- Glenn: Oh, I'm quite sure they're going to get it back.
- Reagh: Is this the bill they're going to propose or the one...
- Williamson: I got this from Mr. Latimer's secretary yesterday. It is my understanding that it is the most up-to-date thing there is.
- Glenn: It should carry the date of April 6 on the front.
- I feel that this tax rate of 7 percent isn't going - if it isn't going to be high enough, why, I simply have to state that it is a matter of intuition as far as I'm concerned; and then I immediately tell me that my intuition is not very good, that when we can get some definite facts to show that the rate should be higher, I think we can force an increase in the tax

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rate, but until we have some definite information....

Buck: Are you (Reagh) prepared to substantiate the rate of five percent going up to nine?

Reagh: Yes indeed. I think that Mr. Williamson and Mr. Glenn will both agree that when we tie the Social Security together - that is, if we provide a tax rate which is sufficient to pay these excess benefits, then I am sure Mr. Williamson and Mr. Glenn will both agree that a tax rate of five to nine would not be more than an adequate rate.

Buck: Well then, it boils down to this: that Mr. Reagh and Mr. Williamson conceive of the tax rate of five percent advancing by one percent steps every three years to nine, as being the correct rate on the basis of the assumptions made by the Railroad Retirement Board, and suggest that as an amendment to the tax bill; and Mr. Glenn suggests instead of that that it be a seven percent, but on the basis of the calculations of the Railroad Retirement Board that rate will probably be - is inadequate and will be subject to later modification upward if the assumptions now made are correct.

Glenn: Well, no, if the assumptions now made are correct, why, seven percent is probably sufficient indefinitely.

Buck: I thought you said a minute ago that it was 7.11.

Glenn: Well, I'll deduct five percent for my salary and....

Reagh: I'd like to have the present value of .11 of one percent of the railroad payroll.

Williamson: That act, as I read it through, does not tie it up to Social Security in any other way except by this separate reserve account. This doesn't seem to carry through that thought very thoroughly. That's the one place; it does put it into this same reserve account here, but the tie-up isn't quite so close as I thought it would be.

Reagh: I haven't read that draft at all.

Buck: Well, aren't we discussing not this bill, but the bill that was before it?

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Williamson: This is the only bill I had seen. I hadn't seen the earlier bill.

Reagh: I think Mr. Glenn can explain any differences. I don't think there are any differences at all in the benefit provisions of the various drafts. The only thing in this new bill is they have apparently set up a reserve fund system, and the reserve is to be the old-age reserve account of the Social Security Act.

Glenn: The very latest addition sets up a railroad retirement fund and provides that each year there shall be transferred to this fund enough to provide for payments and for a reserve against contingencies.

Reagh: There have been no changes in the benefit provision.

Glenn: No changes in benefits.

Buck: Well, what it seems to me to boil down to on a basis of value is that we know from the calculations that the rates now in the bill carry it for some length of time, but they will not be adequate over the long term. We also know that they do not represent a proper differential of the increased benefits, assuming all this prior service liability.

Glenn: Well, I question that statement. The one percent would be adequate for the additional amount if you had a much higher retirement age on railroad employees.

Buck: Yes, but previously I understood that the differential over a period was about two percent with the Social Security Act.

Glenn: For the same retirement age.

Buck: For the same retirement age.

Glenn: Social Security Act is said to have - or be sufficient to support a retirement age anywhere from $66\frac{1}{2}$ upwards.

Williamson: Yes. We've been talking $67\frac{1}{2}$.

Reagh: We talked $66\frac{1}{2}$ - apparently get the same answer.

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Williamson: 67½, and of course no disability.

Buck: Shouldn't there be written into this benefit section some scheme by which you evaluate the liability under this act, just as you would any retirement fund, and find out what you need to collect in order to support it? Is it the thought that this would be run on a cash reserve basis or reserve basis?

Glenn: On a reserve basis.

Buck: On a reserve basis. Well, shouldn't there be a provision in the benefit section so that you people could make valuations on the basis of the way experience develops on it?

Glenn: No.

Buck: Why shouldn't there be?

Glenn: Because we just pay out money. We don't take any in. So we have a net loss for the year of whatever we pay out.

Buck: But somewhere there ought to be an actuarial valuation made periodically of the contingent assets and liabilities of this fund, to see whether you are drifting into a hole or not, it seems to me.

Glenn: Well, they plan on doing it, of course, but then I don't know where you could put it in there. You'd have to put it in the tax bill.

Buck: No, it shouldn't be in the tax bill because if you do that it will be open to a constitutional objection, won't it?

Glenn: They are open to the constitutional objection if they put it in the benefit bill.

Buck: Well, there's no objection to having a check on what you're paying and on the taxes by which those payments are supported.

Reagh: They have done that in the case of the Social Security Act.

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- Buck: We had a meeting in New York and our conclusion was this: that from the data submitted the tax rate was too low, and that on the assumptions it was - one person could have an assumption and defend it by a reasoning, and someone else could have a different assumption and defend it by reasoning; there was no absolute proof to support the assumptions one way or the other - and that there should be put into the benefit bill a provision providing for a periodical valuation of what the liabilities are by the Government.
- Glenn: Don't have any liabilities.
- Reagh: Well, it should be put in for someone that might have liabilities.
- Williamson: Until the constitutionality of the Government's running this insurance business is a little clearer, I don't think, when you go to all the trouble of having two separate acts, that is, tax on one side....
- Buck: I know, but we're going into a private undertaking. The Government is here, isn't it - it is actually singling out one group, providing additional benefits for them. And it isn't a question of carrying on your reserve basis, but it is a question, in my mind, of the Government knowing what its liabilities are, or somebody knowing what its liabilities are.
- Reagh: Can I suggest this, Mr. Buck? What harm would there be in this group, purely as an actuarial group, recommending that such provisions go into the benefit bill? And, of course, if the legal department sees fit to throw that out because of constitutional objections, it would have to go. But I should like to leave that point to the lawyers, as to whether or not that is objectionable.
- Glenn: I think it is too obvious that it is objectionable.
- Buck: Well, generally speaking, it would be the logical, sensible thing to do, wouldn't it?
- Glenn: (Nods yes)
- Buck: Well, why shouldn't we recommend it?

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Williamson: This time I think I agree with Glenn, on this basis: that this thing is clearly a pay-as-you-go proposition, pretty close to a pay-as-you-go proposition, and you've got a much lower slope of increasing cost than in Social Security. You've got an old gang of people here and the upward trend which is present in Social Security isn't here. You've got a lot of old people and you're giving full credit for past service here. You've got a completely different line-up than with this deferred benefit in Social Security, where you have quite small benefits at the start and plan to go up rather sharply on your average benefits as you go along. On this one, you don't expect to give much larger benefits later than you are giving now, and you really are getting over into this field of the real pay-as-you-go philosophy; that is, these employees are paying their money in quite happily to help out their seniors and, as they go along, with such implications as are carried in the bill here....

Buck: Then doesn't it repeat exactly what the old police and fire funds did? All the old unsound pension funds of the country started on that basis.

Williamson: Well, they started with a gang of youngsters, didn't they?

Buck: No, I think that the ordinary corporation and the ordinary municipality waited until it got people so old that they had to retire them before they started.

The whole point of my argument is that nowhere does there appear a record of liabilities under this fund. There is no objection whatever to reducing this retirement age from 65 to 60, and nobody knows what the liability involved is. I'm not arguing for a reserve base pension as contrasted with the cash pay-as-you-go basis, but I do think that if this thing is always kept in a mysterious state of letting the future take care of itself....

Williamson: But you're lugging in here all the fellows who are on pension already. This is quite a different thing than we have had before. Actually, you have jumped right in, taking kind of an old outfit here, handing out at the beginning, and that trend, that increasing

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trend, isn't so dominant, and you are really getting into a pretty well established outfit, already very, very old.

Buck:

How do you differentiate it from the Federal employees? They started with the old outfit. We retired them at 97 years old, retired them at 115 years old. Now, what difference can you make between the Federal employees that started with an age 70 retirement age and cash disbursement basis and no idea of the cost, and they ran along, they used the money of the young employees to pay out to the old; they rolled up an excess of receipts over disbursements of 74 million; then the demand came to have 30-year retirement regardless of age. The Evening Star of Washington advocated a change on the ground that a system that had operated with a 74 million dollar surplus - the Government had never contributed - they certainly should have the 30-year retirement. Now, the only thing that prevented the passage of that bill was the statement prepared of the liabilities under the existing bill, and what the change in liabilities would be.

You don't need to have a reserve basis to know what your contingent liabilities are on your two bills. Now, I have worked for clients that have worked cash disbursement basis funds and they know pretty well where they stand on liabilities. They buy subsidiaries and sell subsidiaries, and they are in the know as to liabilities. And I can't think of any valid argument that we actuaries can put forth as to why we shouldn't recommend to the Government that it put on a measure of this kind something that lets somebody know what the liabilities are.

Now, why shouldn't it be in the bill itself? Who's going to pay to make a valuation of the fund if none is required in the bill itself? That is a sizable undertaking. And I never have yet found a governmental fund that made an actuarial valuation of its liabilities until it was almost required to.

Mr. Glenn makes the statement, very properly so, that all he's going to do is to disburse money and act as the adjudicator of claims. Well, I should think that is probably where he would stop. He certainly wouldn't want to come out with a valuation showing heavy

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liabilities of the fund unless he was required to. I am arguing with you (Glenn) because you say that you think such a recommendation is inadvisable.

Williamson: In this brace of acts here it seems to me that you have very carefully separated the two bills, indicating that there is not this fund relationship here.

Buck: That I don't argue. I think your point is well taken there.

Williamson: Well - and it seems further to me - then you get by and you say, "This is merely a separate thing, and we are merely going to run this valuation" - it seems to me that you do bring up the point that we have, after all, something quite different. Maybe you should face the issue right off the bat.

Buck: The argument is that here is a tax that is going into the Federal Treasury under a tax bill, and you substantiate it on the ground of your taxing power of people engaged in interstate commerce; and that, I take it, is the position by which you hope to sustain the bill. Now, on your benefit scheme you have direct benefits being paid by the Federal Government, just as the Canadian annuity system is paying benefits to many people there. Or you might have any private employer, without assessing any tax on his employees, paying benefits.

Now, when you embark on a thing as far-reaching as this and so tremendous in its liabilities, shouldn't you, when you put on the books of the Treasury liabilities of this kind, which you admit you're not supporting from any taxes, it's an out-and-out disbursement of monies - shouldn't you have a provision for knowing what your contingent liabilities are?

Williamson: I'm trying to make a picture just like Glenn had originally of expected income and disbursement. From the taxes angle, I think that should be done. Looking on this liability thing, I'll say again I don't know what the promise to this man thirty years from now - I don't know quite how this is presented to the man. He assumes that he is in a fund where he's got definite guarantees to him, doesn't he?

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Buck: Well, he can't assume that, because the minute you do that it seems to me you weaken your own argument.

Williamson: Well, that's what I'm saying, that we've got next year and year after that. I think the accruing liabilities in this case are what arrives this year and the next year and the year after for payment, and it isn't the present value of a lot of deferred benefits at all. The taxes are subject to change in the future. So we are not discounting down definite tax rates in the future.

Buck: You are relating taxes now to your liabilities, aren't you?

Williamson: Yes, outgo. I'm making a comparison of the outgo under the thing and the probable collection of taxes - that comparison. And looking ahead twenty or thirty years, I think that I agree that you should have a concept of what is coming along. I don't think we have specific commitments in the sense that the insurance company group annuity has for bits of deferred liability assessable at that point.

Buck: I don't argue that at all. I don't argue that you value anything but your contingent liabilities from here. I think that you have a definite promise from the Treasury to pay a pension to a man that demands it at 65 or after.

Williamson: In your contingent liabilities would you think of future additions coming in or would you think of the present line-up of people?

Buck: The present line-up. My contingent liabilities means just the present line-up of people.

Williamson: And not the total extent of it for perpetuity or anything of that sort.

Buck: No. In other words, I see this: that once the Treasury obligates itself under a bill to pay pensions to a group of people, it does identically what it has done in respect to Federal employees, or what the City of New York has done in respect to policemen.

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Now, I do know this. If you have no idea of the extent of your obligation, you are very free in changing that obligation upward or downward. And I would expect that these railroad employees, if they are alive at all, will want a 60-year retirement age, and they'll want a 30-year retirement regardless of age. It comes in periodically in every plan that I know of that is under governmental operation. And it's already come up here in the railroads.

Now, how in the world can a Railroad Retirement Board, the Secretary of the Treasury, or the Congress know where it's headed unless it knows what its commitments already are? I don't agree with the statement that they can cut this off immediately; I think the moral obligation exists.

Now, we can't check Mr. Glenn's figures, we can't check Mr. Reagh's figures here; but on the basis of the figures submitted there is agreement enough to indicate that your (Williamson) suggested change is an appropriate one. But even your suggested change is depending on the future developments. Now, there ought to be somebody that lets us know what the obligations are of the Government - not in respect to the tax rate; you may be collecting a tax of seven percent and know your obligations are ten, but let us know that they are ten before the railroad employees come here and change this to 30-year retirement. You'll have the employees for it, you'll have the railroads for it, you'll have the public for it, because all you will show is that you have collected half a billion dollars or two billion dollars more than you have disbursed.

Now, without any statement anywhere of your contingent liabilities, I don't see how in the world you can demonstrate to anybody that they shouldn't have 30-year retirement regardless of age. It certainly will be a desirable thing. We had a few years ago Mr. Douglas, the Budget Director, champion a bill for 30-year retirement in the Federal Government, and it nicked us for 74 million dollars in the two years it was in. See? Now....

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Williamson: Not actual outgo.

Buck: But in the liability for the people that went out. Wasn't it 74 millions, something like that?

Reagh: Something like it.

Buck: Now, nobody knew what it was going to cost. They didn't wait to know. Now, I think that that thing is something - we have a bill presented to us; we shouldn't lightly pass over the contingent liabilities involved in the bill, because you are presumed to know about this and have experience. It first came to me - "Why, here you are starting a ship without any navigating equipment on board. I don't see how your captain can ever tell you which way to steer without navigating equipment."

We recommended that in the benefit bill; now we've been through the experience. We had the Government adopt a plan for its employees, and one legislator put in one paragraph providing for a board of actuaries to ascertain the liability periodically; and that has done more - I don't want to be egotistical in this, but I do know that that has done more to keep the bill on an even keel than any other paragraph in the whole act.

Williamson: You feel that that is comparable to the railroad retirement?

Buck: Absolutely, because here the Government is embarking on the payment of pensions; we must presume that the benefits act is entirely separate from the revenue act. Let us assume that the revenue act would be thrown out entirely and the benefit bill is validated. Then we have a bill with the Government paying out pensions with no knowledge at any point of what its obligations already are, and no knowledge as to how they would be affected if the railroad brotherhoods do what I expect them to do; namely, come down here and advocate 30-year retirement regardless of age. Now, I don't see what your argument is going to be if you have your Evening Star come out with the idea that you've got 700 million dollars worth of excess that you have exacted from taxes and they ought to have it; or if you have them just come down and demand more.

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Now, the thing that has liberalized the police and fire bills has been the natural generosity of the legislature, coupled with the little bit of pressure from the interested parties, and with no knowledge of what the obligations are.

So the Board of Actuaries has made two recommendations. One is that the bill be amended in taxes to more approximate the cost as estimated by the Railroad Retirement Board; and second, that in the benefit section there be incorporated what we regard as a pilot house.

Glenn: I think that part would be all right, and the present Act has some such provision. You could word it this way, probably: that the board shall from time to time furnish an actuarial forecast of amounts to be disbursed.

Buck: "Triennially" or whatever the word is.

Glenn: I said every year.

Buck: Or every year. But I do think that the public is entitled to it, I think the Treasury is entitled to it, I think the Railroad Retirement Board is entitled to it. And if anybody knows the difficulty of trying to get an actuarial valuation made of anything better than I know in respect to the Federal Government, and can tell me that I am wrong, I'd like to hear an argument from him.

Glenn: I don't think there would be any objection.

Buck: Well then, I make the motion - no, I can't make the motion. Mr. Reagh makes the motion, or who makes the motion? Does anybody make the motion? You (Reagh) started out to make it, didn't you, that we recommend...

Reagh: I make the motion that provision should be made for - now do you want that, periodical, quinquennial or...

Buck: Yes, periodical valuations.

Reagh: ...valuations of the contingent assets and liabilities...

Buck: You can cut out the assets if you want.

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- Reagh: ...contingent liabilities of the...
- Buck:present and future on account of existing employees and pensioners at the time of the valuation.
- Glenn: I don't like the wording of it.
- Buck: Well, you phrase the wording. What I want to have, if my idea is acceptable, is the statement of what our liabilities are for service accrued and for future service of existing employees and pensioners. And then if somebody offers to change the provisions, then I would be interested to know how those liabilities would be changed; and then I'd have an idea of how much it was going to cost the Government or somebody to make that change.
- Glenn: I never had very much success in making people understand just what various items of valuation represented. I could always get a better understanding by presenting an estimate of the actual disbursements to be made. That is something which everybody understands.
- Buck: Well, I should say if they - if an actuary puts up a liability for the existing force for benefits accrued, for the pension roll for benefits accrued, for the future, that if you want to put it in terms of cost by years, why, I don't think you should be so rigid as to preclude that. I think that is an unnecessary job. But maybe you will explain it - you have explained it to a different class of people than I have been explaining it to. I have been able to explain it to the railroads.
- Reagh: In that regard, Mr. Glenn, I should say that there are certainly a number of Congressmen who have dealt with the reports of the Board of Actuaries of the Civil Service Retirement Fund and who are familiar with the present value figures contained in those reports, and know how to interpret them.
- Buck: But I think it is so generally understood by certain of the insurance departments of the country and by a number of the cities that have systems and by the Federal Government itself that if you put up your valuation it doesn't matter whether you are on a cash disbursement basis, or whether you are buying

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individual annuities, or working on a level percentage basis; your liabilities are exactly the same the minute you get the present value of all your contingent liabilities. Now, if you want to spread them out by cost per year statement, anybody can discount those by computing the present values of them.

But I do think this: that, whichever way you do it, as long as you show the entire liabilities in any one of three forms, then you change the provisions as to the bill to retire after 30 years' service regardless of age, you're going to change those figures and that will give to the public what they want to know. And if you just put it in that there shall be the amount of the contingent liabilities....

Williamson: I'd make it worse. I think "prospective payments" to these people - I mean get rid entirely of this discounting of interest.

Buck: You don't mean cost per new entrant.

Williamson: I think it would be a fine thing to have prospective payments.

Buck: The minute you get prospective payments set up for your pensioners and your existing active force, the actuary that has those two at his disposal will have all the others without telling him. The only thing that I feel is this: that to get that requires somebody to be on the job. If you get somebody on the job with authority, he'll do it; without that authority, you can't do it.

Reagh: Well, I should think if we put in the law the statement for contingent liabilities, that that would set up the machinery to include in your report anything that you wanted to in the way of year-by-year disbursements.

Glenn: I have never heard any objection to the provision. I can't remember what it is exactly, except it provides for a valuation at least every other year.

Buck: That is in the present Act. You see, the present Act would make sure to put up just the accrued annuities, so to speak. That, to my mind, is different from just setting up one statement of your present value

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of your future payments or the future payments themselves, on account of existing employees and pensioners. Now, if you want to go further than that, all right, but I don't think you need to go further than that.

I do understand that when you come to your asset side you are capitalizing the contributions on account of the new entrants against your accrued liabilities.

Reagh:

Would you want to go further, Mr. Buck, and say that such report should be accompanied - or such valuation, or whatever you call it, should be accompanied with a report to Congress and the public, and should, as we include it in your letter - we might read the very phraseology that we had in that letter of the Board. I think that the railroads, the employees, and the public should be sure of technical representation, and that the valuation should be subject to the supervision of a board of, say, three actuaries, one to be designated by the railroads, one by the railroad employees, and one by the Secretary of the Treasury.

Buck:

I don't remember how we phrased that letter.

Reagh:

Here is a copy.

Buck:

Well, I'm reading now from a letter. "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

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railroads, one by the railroad employees, and the third by the Secretary of the Treasury."

Now that, I take it, is the suggestion from the Board of Actuaries to the Treasury. I take it that you gentlemen take exception to any valuation of assets.

Williamson: That is in another side of the thing here, but...

Reagh: Yes, it is difficult to speak definitely in this case of assets, because all we've got is the tax.

Williamson: I kind of hate to see this discounting with interest. I'm all for setting down your prospective payments. It has the same moral significance as everything you've been saying, but it eliminates the thing that if you had your money up here it would be earning interest. Here you've got all these payments together. Your interest is quite a fictitious thing when you don't have any funds, and I think - I think I am with you, with the idea of prospective payments to these people.

Buck: Showing the amount of the prospective payments and leaving out whether it is to be interest or not.

Williamson: I think so. I think it has the same significance here, and it saves you from giving or taking credit for something that isn't functioning there. Your interest really isn't working here.

Reagh: The interest is just another valuation assumption like the retirement age.

Williamson: Here you have built up a rather fictitious picture of interest, perpetuity, and the rest of the things there. If you change your mind and decide the interest rate ought to be $2\frac{1}{2}$ instead of 3, that shifts all your values. You haven't really shifted them.

Reagh: What I'd like is both, as a matter of fact.

Williamson: Well then, that would be forcing you to elect some rate of interest. I think the other, at this point of the game, is kind of more constructive, because

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you haven't got your funds here.

Reagh: I look at the interest, though, as just being an arbitrary measure. You set up and use that same measure year after year. Whether or not it holds in this case....

Buck: You're using an interest rate in setting this tax, aren't you?

Glenn: Yes

Williamson: Yes and no.

Buck: Your figures won't work on just prospective payments.

Williamson: Yes, they do. I mean you're going along here and I'm still saying that I haven't the slightest belief that this is a permanent set-up; it is subject to investigation, to revision. It is the same thing substantially. You assume your age distribution and you assume a rate of interest on the present value that you would have if you had it, and you add the things together. Now, you assume ultimately a stationary situation. Means just the same thing.

Reagh: That's what the insurance company does every day. The insurance company is looking ahead for contracts, most of which only last for a period of a few years. It knows jolly well that ten years from now practically all of its present business will be a very small proportion of the then business.

Buck: All I was seeking to have is the statement that - can we couch it in a form that requires a periodic valuation setting forth the liability, and leave it stay just the liability for future payments to members then on the pension and to those then currently contributing to the system. And that would permit you to give a cost by years if you wanted to, or give it this discount thing.

Now, I should say this: that if you're going to give the railroads and their employees the benefit of a future interest rate in setting their contributions, you would probably want to introduce that into your liabilities. Otherwise, you'd never be able to get

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anywhere, because you'd have money coming in at one time and getting out at another and if you disregard the interest...

Williamson: Well, you happen to have a very small proportion of interest in here.

(Magill comes in)

Buck: Well, this cost by years business, if it is done - this business of assuming an average age for all disability retirements, etc., to my mind is not the kind of valuation that you will keep to. I take it that you're going to get down to a more nearly pension fund procedure and be checking your retirement rates against your assumed rates, so that you will make it in typical style. There is only one way you can make it as time goes, you might say. So that if you simply say a statement setting forth your prospective payments, won't that answer you?

Williamson: Yes.

Buck: Then you can give both or at least give one.

Magill: Well, how does it look?

Buck: It looks as though I shouldn't have come down from New York.

Magill: Are you the apple of discord?

Buck: Yes, the fly in the ointment, or something. The first time I ever had wings. And that's about as far as I've gotten with them.

Williamson: We all agree the present rates are a little low.

Magill: You do?

Williamson: As a conservative measure.

Buck: Do you (Williamson) want to make your motion?

Williamson: About the rate of contribution?

Buck: Yes

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Magill: Well, I'm going home and get dinner now.

Williamson: So am I in a few minutes.

Magill: Well, how does it look? Are you going to be able to reach a conclusion?

Buck: Looks as though we're going to adjourn in the next ten minutes.

Magill: You mean you're going to be all done in ten minutes?

Buck: Yes.

Magill: Well, good.

Buck: As much as we can do today.

Magill: Now, that last bothers me - as much as you're going to do today. What are you going to do then?

Buck: We've got two motions that we have practically reached an agreement on, and we're just trying to formulate them.

Magill: How are you going to do this report business? Take these notes and formulate it?

Reagh: Where are you (Buck) going to be?

Buck: I'm going to be in Richmond.

Reagh: Should Mr. Glenn and myself and Mr. Williamson get together and take our report here - stenographic report - and make up a formal report to the Secretary?

Magill: I think - should think so. Needless to say, you want to keep your report to him fairly short.

Buck: There is a certain point of agreement that we have reached. I thought your (Williamson) motion regarding the.....

Williamson: My motion recommended the tax rate at five percent aggregate for the first three years, then going up one percent, instead of one-half percent, each triennial period, to a maximum of nine percent. Now, Mr. Glenn's.....

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- Buck: Do I have a second to that motion?
- Glenn: I object to it.
- Reagh: I second that motion.
- Buck: All right, now, are you ready for the question?
Do you (Glenn) want to speak to that motion?
- Glenn: I think that that tax rate would provide more than
is really necessary here if the railroad employees
are kept in a separate fund. I can't see that the
costs would ever go that high.
- Williamson: Your 800 million, divided among 40 years, is 20
million a year, is that right?
- Reagh: Well, remember he said if the railroads are kept in
a separate fund.
- Williamson: I know, but I mean you've got in your figures....
- Reagh: I've made no estimate myself at all, except from
his figures.
- Buck: You (Magill) needn't wait.
- Magill: But there's going to be a report sometime along, is
there?
- Buck: Yes
- Magill: All right. Well, good luck to you. (Leaves)
- Williamson: You've come out with this 8.33.
- Reagh: The 8.33 is based upon the amount required to pay the
Social Security benefits plus the supplemental.
- Williamson: But you did have the 800 million figure. Now, the
800 million...
- Reagh: That's the cost of excluding railroads from Social
Security.

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- Glenn: I believe that figure is high on account of the fact that the salary scale exceeds average earnings.
- Reagh: Well, that's the basic average of \$1680 on that.
- Glenn: Flat?
- Reagh: Flat \$1680. There's no salary scale - or no salary that I assumed that I know what it is. I used yours, whatever it was.
- Glenn: Well, I'm quite sure that my salary scales wouldn't give you too high a figure for that.
- Reagh: Well, it was too high for the rest of your figures?
- Glenn: I don't think so, no.
- Reagh: I don't quite get the distinction - why you can't use the salary scale for one purpose and not for another.
- Glenn: Because the amount of salary doesn't have as much effect.
- Reagh: Yes, that's quite true.
- Glenn: Further, I'm quite sure that the salary scales don't reflect unemployment as much as they should; that we tended to get records of people who were in service during most of the year.
- Buck: Mr. Glenn, would you agree to a 7 percent rate increasing to 8½?
- Glenn: Increasing how rapidly?
- Buck: Well, you set it. Going up a half percent, same as you had it.
- Glenn: No, I don't think I'd agree to that even.
- Buck: Does anybody else want to speak on that motion?
- Reagh: Well, that rate of 7 percent going up by a half every three years to 8½ on January 1, 1946, is roughly

- 68 -

equivalent to 5 to 9.

Williamson: Yes, I should think it would be.

Glenn: No, I should be in favor of the 7 percent rate. I think it probably wouldn't be necessary to increase it for 15 years, at which time you might have to go to 8.

Reagh: Do you mean have to go to 8 for what reason? That any fund accumulated would be exhausted at that time?

Glenn: No, at the end of that time the fund that you accumulated would start to decrease.

Williamson: And 8 would hold it probably, would push it up a little bit more.

Buck: Isn't it much safer to take his (Williamson) proposition (to Glenn)?

Glenn: Safer, yes, but I don't think....

Buck: Isn't it more nearly your own conclusion than your 7 percent? If you take your 7 percent, you've got a rate which you admit is inadequate. If you take his rate of 5 percent running to 9, you have a rate that is more nearly adequate. Now, there are some people who say that it would change your assumptions and even that rate is not adequate. So it seems to me you're getting a pretty happy medium. So that I should think your position would be 7 going up to 8½ by slow steps, or 5 percent going up to 9.

Williamson: Or 7 going up to 9. I mean 7 going in one jump to 9 at the end of 15 years would be comparable to this other thing here.

Glenn: I think that is more than is necessary.

Reagh: Mr. Glenn, of course, is talking about something different than the original rates were based on. He's not talking about treating the railroad fund entirely by itself.

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- Buck: The 5 to 9, as I understand it, leaves everything in status quo with the additional benefits of the railroads being paid for by the railroads and the employees, and the fundamental basis on which those figures are arrived at are your (Glenn) figures. If that be the case, it seems to me we've almost got to hang to it, and that you're in a position....
- Glenn: I can't see but that is an excessive rate. I just can't see how that is necessary. If you're going to retire everybody at a flat 65, you only get a ten percent rate. As a matter of fact, with this assumed increase in the....
- Buck: Well, why don't you recommend some kind - what kind of an increase in your rate of 7 percent would you recommend?
- Glenn: I really wouldn't recommend any scheduled increase at the present time.
- Williamson: His point is that in 15 years then all these carefully prepared statements of liabilities would be tabulated and you'd go to a better rate at the end of the period.
- Buck: But the trouble is it puts us in the indefensible position, it seems to me, of recommending the allowance of these excess benefits on a one percent differential, and that's the thing I get hooked on all the time.
- Reagh: It certainly doesn't seem logical.
- Glenn: Well, you can defend it if you say that the assumptions that they have made here as to retirement are justified.
- Buck: Well, I know, but at the beginning of the meeting you made the statement that the differential is two percent.
- Glenn: At the same retirement.
- Buck: Yes, on the same retirement rate. Well, if the differential is two percent on the same retirement rate of the two benefits, why isn't that the measure of

- 70 -

the difference?

Glenn: Well, there is an assumed difference in the retirement rates.

Williamson: Of course, on this particular thing it is the same, but the whole outfit probably would have a different retirement rate than this one little bit. And if you took the added benefit for the whole thing with a lower age, we'll say, and mashed it up against his comparison - I haven't got it through my own head adequately yet.

Reagh: I was trying to figure out why there would be any justification for assuming a different retirement age.

Williamson: Well, they've looked through, you see, and found that these people are retiring late - I think that's been true - without pretty definite benefits coming to them, in most of the roads. It doesn't seem to me it's going to stay true. A retirement age of 70, with these more definite benefits - I think it is the creation of benefits which changes your results.

Buck: Well, would you (Glenn) agree to a 7 percent rate, putting a statement in the bill "subject to modification"? In other words, I understand that Congress has the right to change the bill any time it wants to, but it seems to me we shouldn't lead the railroads and employees to believe that this can be operated for 7 percent.

Glenn: I don't think we should either.

Buck: Unless we had some such statement in the bill.

Glenn: If they want to recommend that, why,.....

Buck: Mr. Williamson, would you consider an amendment to your motion to make it 7 percent at the outset, with a provision in the tax bill that the tax shall be modified from time to time?

Williamson: Yes, I'd consider that. I think if you make it specific - that you are on safer ground if there were any way of carrying across the belief that it

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should be later changed.

Buck: Now, it seems to me our board here is going - if we could go 7, increasing to 8½, or 5 increasing to 9 - I like that because you happened to hit on the same figure that we hit on.

Williamson: Well, I picked it out too because Social Security started the same way.

Buck: Well, can we vote that that is the sense of the meeting and that Mr. Glenn is voting in the negative?

Glenn: I vote in the negative.

Buck: On the ground that he would prefer a 7 percent rate, which in his judgment is not adequate for all time.

Glenn: Probably not adequate.

Buck: Probably not adequate for all time. Are you ready for that motion? Well, all in favor say "Aye" and those opposed "No." Motion carried.

Now, I take it that the second motion was that we recommend the inclusion in the benefit bill of a provision to the effect that there shall be periodic actuarial estimates prepared of the prospective payments on account of the existing pension roll and existing contributions at the time of valuation - rather, existing railroad employees at the time of valuation covered by the Act.

Are you ready for the question? All those in favor of the motion will kindly signify by.....

Reagh: I should like to ask a question on that last one. Are you going any further on that report? I think there is a definite point made in your recommendation there that such a valuation should carry with it a provision for a periodical report to Congress.

Buck: I think - take it there is no objection to that. Do you make that a motion?

Reagh: Well, I'd like to amend the previous motion.

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- Buck: Well, make a new motion.
- Reagh: That the valuation carry with it a report to Congress and the public.
- Buck: Is there any objection to that? Put that in without objection.
- Reagh: I think that the Treasury and Mr. Magill feel quite strongly that any report - I presume all of this valuation work will be done by the Railroad Retirement Board.
- Buck: Yes
- Reagh: But that there should be a board of actuaries set up; one named by the railroad employees, one by the railroads, and one by the Secretary of the Treasury.
- Buck: Just like the Civil Service Retirement Act.
- Glenn: I presume that would be all paid for by the Board.
- Buck: Or have it paid for by the Treasury.
- Glenn: I think if you call on the railroads and railroad employees to pay for it, they'd never do it.
- Reagh: Paid for from the fund.
- Williamson: That is an addition to the benefits - to the outgo from this reserve.
- Buck: Yes
- Williamson: You haven't had any expense in here before.
- Reagh: Whoever administers the Act pays for it.
- Buck: Our Board has never been paid.
- Reagh: Of course, as far as the Treasury is concerned, the Treasury pays that part of it. And Mr. Buck, I believe you're paid by the Civil Service Commission.
- Buck: Yes.
- Reagh: And the third member is honorary; gets nothing but his expenses.

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Buck: Now, may I have another motion to the effect that the answer to the comment in the letter to the Secretary referred to us be drafted by a committee consisting of Mr. Reagh and Mr. Williamson and Mr. Glenn, and that the report of this meeting be drafted by the same committee and referred to the people here present for signature.

Is that agreeable? Do you make that motion?

Williamson: (Nods yes)

Buck: You've heard Mr. Williamson's motion. All in favor of the motion say "Aye," opposed "No." Motion carried.

George E. Bask
Consulting Actuary
New York City

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 submit 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 \$840,000,000 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 percent, 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 percent, increasing by increments of one-half percent every third year to 8.5 percent after January 1, 1946; or an initial tax rate of 5 percent, increasing by 1 percent increments to 9 percent 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 of 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,

Board of Actuaries,
Civil Service Retirement and Disability Fund.

C O P Y

April 7, 1937.

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

Dear Mr. Secretary:

We appreciate the spirit in which you have been attempting to reconcile the various interests involved in working out a railroad retirement system, and your cooperation in having the entire matter restudied by a group of actuaries. In order to make clear the exact points of difference, we should appreciate your putting to the actuarial group the following queries:

1. On the assumptions used by the Railroad Retirement Board in making cost calculations, are the figures arrived at by the actuaries of the Board correct? We are particularly interested in the retirement age assumptions, which when combined produce an average retirement of 67.2 years. We regard those estimates as most conservative. A copy of the revised memorandum on costs submitted to us by the Board is enclosed. We understand that a copy of this memorandum has been submitted to the Treasury.

2. If railroad employees were affected by Titles II and VIII of the Social Security Act, individual railroad employees retiring for many years in the future would receive old age benefits in excess of the value of the taxes paid by themselves and their employers. Using assumptions comparable to

those employed by the Railroad Retirement Board in cost calculations, what is the average value of such excess benefits during the period from 1937 to 1970 expressed as a percentage of the railroad payroll?

3. Given the assumptions of the Retirement Board, and assuming the availability of the excesses referred to in the preceding question, would the actuaries advise proceeding on the basis of the proposed agreement, with the understanding that both the labor organizations and carriers will agree to adjustments if and when actual experience shows such to be necessary?

We believe answers to these questions will aid in the mutual understanding of our problem.

Very truly yours,

(Signed) George M. Harrison
Chairman,
Railway Labor Executives Association

(Signed) J. J. Pally
President,
Association of American Railroads

FEDERAL RESERVE BANK
OF NEW YORK

274

OFFICE CORRESPONDENCE

DATE April 8, 1937.

TO: CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Knoke

BANK OF FRANCE.

I called Mr. Cariguel at 10:37. I asked him "What is all the excitement in Europe" and he replied "It all comes from Washington." He continued that information to the effect that banks were afraid to ship gold to New York for their own account, because they were not quite sure how much they would get for it upon arrival there, had badly upset the Paris market which, he claimed, had been proceeding very quietly and smoothly. He asked a thousand questions as to what the Treasury might do, what I thought they would do, to what extent the President could act without the approval of Congress if he wanted to devalue the dollar, etc. I tried to answer all these questions as I did with the British and the Dutch and reiterated my personal belief that, if only for political reasons, no change would take place, certainly not in the near future. Cariguel stated that when the weakness of the franc developed yesterday they stepped out of the market. He admitted, however, that the Paris market had been somewhat disturbed because of heavy sales of dollars against sterling for Russian account; these sales, he said, had run from \$1,500,000 to \$2,500,000 a day. These transactions were handled by Lazard for account, he thought, of the Banque Commerciale Pour l'Europe du Nord.

LWK:KMC

JR

GRAY

London

Dated April 8, 1937

Rec'd 10:55 a.m.

Secretary of State,
Washington.

202.. April 8, 2 p.m.

FOR TREASURY FROM BUTTERWORTH.

Some nervousness continues to prevail in the gold market and bullion dealers are exhibiting reluctance to undertake heavy commitments or to operate in any way in the futures market, Indian futures being offered at a substantial discount.

In this connection the following excerpt from today's TIMES may be of interest.

"Among the lessons to be learnt are that it is not enough to assure stability, that there should be only one buyer of gold: that there can be no confidence in exchange stability until de facto stabilization has been translated into stabilization de jure; that currency disorder is invariably associated with disordered markets; and that monetary manipulation, unless it has a constructive and clearly defined objective, is apt to produce unexpected boomerang effects. It is true that in economic

-2-

JR #2027, April 8, 2 p.m., from London.

economic circles for some months the question of America reducing appreciably her buying price of gold has been discussed and also that in view of the growing output of gold, reduction in the price of gold should be looked for. Theoretically there may be strong arguments in favor of such a course but the practical arguments are powerfully against it. The economy of the world has been readapted in the last few years to a higher price for gold and other commodities and a corresponding reduction in the purchasing power of paper currencies. In fact this offered the only practical solution of the economic problems and burdens left by the war. To reverse the movement to any extent would obviously produce the gravest difficulties. Having suffered one storm which has blown the furniture on to the roof the proposal to deflate the movement seems like suggesting that another storm should be organized to blow it back again regardless of the possible effects on the structure".

KLP:WNG

BINGHAM

LWS

GRAY

Paris

Dated April 8, 1937

Rec'd 4:30 p. m.

Secretary of State,
Washington.

465, April 8, 4 p. m. (SECTION ONE)
FROM COCHRAN.

This noon I attended a luncheon where Professor Sprague addressed 120 members of American Club of Paris. He spoke principally upon prices and gold with considerable reference to rearmament influence. He thought that the most effective method of checking what might be considered unduly high stock market and commodity price rises in the United States would be through taxation. That in future if taxation were imposed while prices are high the tendency would be to divert investment from speculation; the taxation would be more bearable than if the job of raising money is left until after the boom is over; and finally if the people were confronted with paying for the government's spending as it is incurred there would be more of a move against excessive government disbursements.

Sprague referred to the "unduly high price for gold" which had been created in the United States when the rate

of

LMS 2-No. 465, April 8, 4 p. m., Sec. 1, from Paris.

of \$35 per ounce was established. He thought no sanctity should be attached to this particular rate. He was not sure just why this figure was chosen. He incidentally remarked that he left the Treasury about that time. This American gold price had, however, led to an immense flow of gold to the United States which is still continuing. He posed the question as to whether the United States would be willing to see our Treasury

WILSON

CSB

LMS

GRAY

Paris

Dated April 8, 1937

Rec'd 6 p. m.

Secretary of State,
Washington.

465, April 8, 4 p. m. (SECTION TWO)

borrowing indefinitely to buy up unwanted gold for sterilization.

Sprague suggested two possible remedies for the present gold movement. The first was the possibility that economic and particularly export trade conditions in foreign countries might improve to such an extent that those countries would attract gold more than does the United States. He referred particularly to the possibility of Germany's drawing gold if her export trade should markedly increase. He seemed to think, however, that this first possibility is quite remote. As for the second possibility, Sprague reminded his hearers that the gold content of the dollar had been revalued in the United States with the purpose of raising prices. It might logically follow therefore that if prices reach the level which was sought or tend to pass that level a decision would be taken to reduce the price paid for gold. He referring ^(referred?) to the "elasticity" of the President's mind and said that a .
decision

LMS 2-No. 465, April 8, 4 p. m., Sec. 2, from Paris.

decision such as this in the distant future after the Government may have tired of controlling commodities and upsetting utilities would not surprise him. He said that time in America did not originate many new ideas and were prone to follow the experiences of other peoples. He thought that the most likely influence for a change in the gold price in the United States now would be for some other country to revalue its currency upwards. He referred to recent gossip to the effect that the Swedes might revalue their crown. He understood that Swedish economists had considerable influence at Stockholm and that they

WILSON

SMS:RGC

LMS

GRAY

Paris

Dated April 8, 1937

Rec'd 6:15 p. m.

Secretary of State,
Washington.

465, April 8, 4 p. m. (SECTION THREE)

were more disposed to be in agreement one with the other than are American and British economists. He thought, therefore, that if Sweden might take the step the United States might one of these days follow.

Sprague did not think, however, that any credence should be given to day-to-day gossip about changes in the American gold price. He pointed out that present legislation gives a leeway of increasing the gold content of the dollar only from 59.06 to 60 per cent of its former value. He presumed that the Secretary of the Treasury could refuse to buy any foreign gold or could increase the handling charges of one quarter of one per cent up to a figure which might make a difference of a few cents on the price of an ounce of gold but he did not look for either of these possibilities to develop.

In conclusion Professor Sprague referred to the question of the reduction of indebtedness by various devices

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devices and particularly to the cessation over a continuing period of payments on war debts and repatriations. He (referred?) referring to the method of subsidies to allies followed in the Napoleonic wars. He regretted that at the beginning of the late war officials in the British Treasury had (*) of following the old subsidy plan conceived the idea of considering advances to their Allies as loans. He thought the principal purpose of this conception of the advances was to influence the borrowers to spend less. He said that when we became associated with the Allies we followed the British example in loans as we have in many policies but being a very naive people expected them to be repaid. He thought every one would have been better off if the former subsidy idea had continued to prevail and if no inter-Allied debts had remained after the war was terminated.

WILSON

SMS:EDA

(*) Apparent omission.

LMS

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

Paris

Dated April 8, 1937

Rec'd 6:12 p. m.

Secretary of State,
Washington.

465, April 8, 4 p. m. (SECTION FOUR) (GRAY)

Paris exchange market has been nervous and French franc under pressure throughout the day. Dollars very much in demand and were scarce until British control began supplying the market. Money very tight here and it is understood that subscribers to the national defense loan who have not yet been able to pay therefor are being given until the tenth of the month. In meantime there appears to be occasional official intervention to buy these bonds at discount of twenty-eight francs per thousand but the general market price involves a discount of thirty-five francs. Bank of France statement as of April 2, fairly good showing no change in gold stock or in advances to Government. Coverage 55.23 versus 55.09.

European Financial Press gives much space to American gold scare and to van Zeeland's economic investigation. French press quick to emphasize "association of democracies" in moves toward world economic conference. Reports from Berlin and Rome suggest attitude of reservation toward conferences which might condemn their economic policies without

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without alleviating political problems.

It is the opinion of my market contacts that the franc weakness is due to the American "gold scare" and not to the internal situation in France. In other words, operators do not find statements as reported here of the President and of Secretary of the Treasury sufficiently categorical and positive to convince them that there is not some basis for the rumors current at the present time. There has been no rescinding of Guaranty's instructions to European branches with regard to transactions in gold. At the moment I do not yet know how the press will deal with the speech of Sprague outlined above, but I do not feel that he will be helped thereby.

END MESSAGE.

WILSON.

KA:LWN