

DIARY

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April 15 - April 22, 1937

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Wolfe, Joe (Democratic National Committeeman, Minnesota)
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April 15, 1937.
9:30 a.m.

H.M.Jr: Hello

Operator: Governor Harrison hasn't come in yet. They expect him in a few minutes.

H.M.Jr: Well, I'll call him after ten. Will you remind me?

O: Yes sir.

Harrison: Hello

H.M.Jr: Hello George?

H: Hello Henry.

H.M.Jr: I got a message you called last night.

H: Well I called - ah - only to gossip a little more with you. I had some reports that I thought you'd be interested in. We got Childs and Company.....

H.M.Jr: Yes.

H:who have offices you know all over the country.....

H.M.Jr: Yes.

H:to make a survey.....

H.M.Jr: Yes.

H:and it was so interesting that I thought you might be interested in it too.

H.M.Jr: I do - I wish you would. I had one of my really bad headaches yesterday and had to go home.

H: Oh I'm awfully sorry.

H.M.Jr: I went home about 11 yesterday or 12, whatever it was.

H: Now, for instance, here's the report from his Boston man.....

H.M.Jr: Please.

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H:which covers all of New England - of the Boston Reserve District.

H.M.Jr: Yes.

H: He says, "Most of our clients have lost their bearish feeling and are now turning bullish;....."

H.M.Jr: Right.

H:none of the banks we know of will have to borrow from the Federal Reserve Bank for reserve requirements...

H.M.Jr: Pardon me. None will or some will?

H: None will.

H.M.Jr: Yes.

H:and none of them will have to sell bonds for this purpose."

H.M.Jr: Yes.

H: "Several of our small banks will take money from their New York balances."

H.M.Jr: Yes.

H: From Philadelphia, which covers a large part of Pennsylvania and Southern New Jersey.

H.M.Jr: Yes.

H: "Better feeling exists here with higher prices expected."

H.M.Jr: Yes.

H: "Almost every bank that we have talked to is already prepared for May one."

H.M.Jr: Yes.

H: From Washington, which covers North Carolina, South Carolina, Virginia and Alabama. "Down south, as well as locally - that's in Washington - opinion is that market is well improved....."

H.M.Jr: Yes.

H:but they are frightened and won't buy yet.

H.M.Jr: Yes.

H: "Most of them have adjusted for May one but we know - and we know of none who have to borrow."

Then here's one - ah - from the President of the French Securities Company in Los Angeles.

H.M.Jr: Yes.

H: He says that all the banks are set for May one. In fact he thinks they are overset for it.

H.M.Jr: Ah-ha.

H: In other words, maybe they will have - ah - additional reserves after May one.

H.M.Jr: Ah-ha.

H: Then from Chicago, "Most of the country banks are over as to May one.

H.M.Jr: Ah-ha.

H: "They believe that market is going to do better and a few willing to sell on a substantial rally."

H.M.Jr: Ah-ha.

H: Kansas City, which covers the Tenth District and that's Colorado, Kansas, Wyoming, Nebraska and so on.

H.M.Jr: Yes.

H: They report that there are possibly only two or three banks in the Tenth District which will be effective as of May one.....

H.M.Jr: Ah-ha.

H:and that two thirds of the banks in the district...

H.M.Jr: Yes.

H:have enough excess reserve at the moment to take care of the May one boost.

H.M.Jr: Huh.

H: Pittsburgh - this is the only bad report - "Practically all the banks are ready to meet May one requirements.

H.M.Jr: Yes.

H: "Have not talked with anyone who will find it necessary to borrow.

H.M.Jr: Yes.

H: "Most of my clients still think that the market trend will be downward over the next couple of months."

H.M.Jr: Ah-ha.

H: But all the rest of them, you see, apparently are on the bullish side.

H.M.Jr: Well, I suppose that's the Mellon influence?

H: Well, I don't know. (Laughs) I thought I'd find out from my brother who is the Vice-President of the Mellon Bank (laughs)

H.M.Jr: Yes (laughs) Well I think that's - that's about the best news that I've had on the bond market.

H: Well I thought it was a pretty good survey.

H.M.Jr: Very.

H: And I just called to report that. Then in the meantime Marriner called me and he told me that you were upset about our buying - having sold some bonds yesterday.

H.M.Jr: Well -

H: And I told him that I was surprised because I thought I'd done what everybody agreed we should do, that is, to have an orderly market two ways; have it a two-way proposition.

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H.M.Jr: Yes, well that isn't exactly reporting; I didn't say anything - as a matter of fact Marriner was in the room when I talked to you.

H: Ah-ha, well he got the impression either from you or some of your associates that we shouldn't have sold them.

H.M.Jr: No - no.

H: As a matter of fact.....

H.M.Jr: No - no that's not correct.

H: Well I'm glad to hear it because it upset me.

H.M.Jr: No, that's not correct. What we were talking about was this: I said that it wasn't a day to day operation - I mean on the buying or the selling but that what we had hoped that the policy was to increase excess reserves and not to buy and sell, see what I mean?

H: Oh I see.

H.M.Jr: Then they told us for the first time that whatever the net position was at the end of the week that you couldn't go below that.....

H: Yes.

H.M.Jr:which was the thing that we did not know.

H: Yes.

H.M.Jr: See?

H: Yes.

H.M.Jr: And - ah

H: You know I can't reduce the account.

H.M.Jr: No - no now Bell is sitting here and he can hear you and he's nodding his head agreeing with me as to what I said.

H: Yes.

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H.M.Jr: He was here - both when I talked to you and when I talked to Marriner.

H: Yes.

H.M.Jr: Listen, you know me long enough now - I - I - I - when I say - I'm consistent and what we were talking about and what Wayne Taylor particularly was talking about was that we thought that this was - policy was to increase excess - ah - increase excess reserves - Open Market operations.....

H: Yes.

H.M.Jr:and that - ah - when they told us that whatever the net position was at the end of the week that that had to - that that was the minimum.

H: Yes.

H.M.Jr: Well I said, "That's all right."

H: That - that - that's true so far as the order.....

H.M.Jr: As a matter of fact Marriner - let me ask (aside to Bell: "Wasn't Marriner in the room when I talked to Harrison yesterday") He said - well I talked to you around 12 o'clock or so, see?

H: Yes, that was the third time we talked.

H.M.Jr: Pardon me?

H: That was the third time that we talked.

H.M.Jr: Well we talked then and that - at that time I talked to you and Marriner was in the room - no - there's - there's a misunderstanding.

H: Well that's all right because you see my orders - I've got orders from the Executive Committee - I mean I'm talking now as an operating man.....

H.M.Jr: Yes.

H: Ah - to keep an orderly market.....

H.M.Jr: Yes

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H:and - ah - authority to buy and to sell in order to do that.

H.M.Jr: Yes.

H: Now when we sold four million seven on Saturday and I talked to you about it I thought you were very happy about because you find that makes a good two-way proposition.

H.M.Jr: Now, I was satisfied; there's - there's a conflict here.....

H: Yes.

H.M.Jr: What - what we were fearful of - two things that - ah - the committee might try to cap the market and keep it from having an orderly rise and that furthermore - through selling, see?

H: Yes.

H.M.Jr: And the other thing was that what we wanted to see was an increase in the amount of the holdings between now and the first of May until you knew what you did need.

H: Yes, well, of course, Marriner and I have a little different interpretation of what the Open Market Committee did decide.

H.M.Jr: Well now that's something different.

H: That's another thing.

H.M.Jr: But George after three and a half years of handling hundreds of millions of dollars with you people in New York - ah - we've never yet had a misunderstanding as to orders.

H: No.

H.M.Jr: Not once.

H: No.

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H.M.Jr: See?

H: No and I - and I

H.M.Jr: That's too important and any time you've got any question in your mind as to what I do or don't want the only person to ask is me.

H: Well I didn't ask him; he called me up and was telling me about it.

H.M.Jr: Well -

H: And I said, "Well I'm shocked and surprised because I never got that impression from the Secretary."

H.M.Jr: No - no - you talked to me.....

H: And I said (laughs) I said - "He couldn't have meant it anyway because he sold some notes yesterday himself."

H.M.Jr: That's right. No, it's too important with - by word of mouth - we're doing business in hundreds of millions; we can't afford to have any misunderstandings.

H: No, and that's the reason I'm telling you frankly now that I was upset when the Chairman told me that you didn't like my selling some bonds yesterday.

H.M.Jr: No it was a misunderstanding.

H: All right, well that's first rate then.

H.M.Jr: All right, George.

H: All right.

H.M.Jr: Thank you.

H: Goodbye.

April 15, 1937

9:30

Present:

Mrs. Klotz
Mr. McGill
Mr. Oliphant
Mr. Gaston
Miss Roche
Mr. Gibbons
Mr. Lochhead
Mr. Bell
Mr. McReynolds

HM, Jr.: (To Mr. McReynolds) How are you getting along with Housing?

Mr. McReynolds: Well, Straus came in yesterday. He was up on the Hill. I took him down and introduced him to Ihlder.

Mr. Bell: They started hearings on the Wagner bill yesterday.

HM, Jr.: What I would like to do -- we have a Legislative Section. If Mr. Bell is doing this, why we will let him do it, but what I would like to have on my desk is an up-to-date -- just a slip of paper, showing where these bills are; show these big appropriations; what is the status. For instance, I walked down with Bill Myers. Bill thought that the Farm Tenancy Bill had passed the Senate last year and now was pending before the House and I said, No, I didn't think so. If Bill Myers doesn't know whether the Farm Tenancy was passed or not, how can you expect me to know. That is something that is supposedly more vital to him than to us.

What I would like to have -- I want here, under my glass, a memorandum showing the bills which are carrying these big appropriations. I want to know where they are and the net amount.

Mr. Bell: We have that watched pretty carefully. Some of the main ones we send to the White House once a week.

HM, Jr.: Who does that for you?

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Mr. Bell: Mr. Lawton's section.

Mr. Oliphant: We have it from day to day.

HM, Jr: (To Mr. Oliphant) Make a note. What I am interested in -- the Wagner Housing Bill, I want to know where it is standing; the Farm Tenancy Bill -- and incidentally, I can't make it out what they are talking about \$450,000,000 appropriation and the President, I think, has in mind \$10,000,000 or \$15,000,000.

Mr. Bell: No. The last time we talked to him it was \$10,000,000 or \$15,000,000 on housing.

HM, Jr: And I want Education and all the other big appropriations.

Mr. Bell: Crop insurance. The Farm and Tenancy has been reported out of Committee by Jones. It may have passed the Senate last year, but even if it did it would have to go through again because this is a new session.

HM, Jr: Just let me take a minute. This is in the room. We have been studying the situation -- money for next year and the year after, trying to look forward to tapering off. For instance, Wallace, exclusive of ever-normal granary, expects to spend in 1937 \$1,267,000,000; in 1938, \$1,176,000,000 and in 1939, \$1,087,000,000.

Bill Myers comes along with a study which shows that Government aid to Agriculture from 1934 to 1937, we have given away \$2,524,000,000 -- to Agriculture!

Mr. Bell: Does that include Good Roads?

HM, Jr: No. AAA, Resettlement, Federal Surplus, Federal Emergency Relief -- no, this is straight Agriculture. Their overhead is \$130,000,000. It costs \$130,000,000 to give away this year, for nine months, to give away \$518,000,000.

Mr. Bell: That must include technical organizations.

HM, Jr: As I told Henry Wallace, he said 'You don't understand what we are doing,' and I said, Oh, yes, I do. I understand it more every day. Everybody is saying Hopkins, Hopkins, Hopkins. This is ten times worse than Hopkings.

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Hopkins is the only emergency head, (nodding to Miss Roche: You will be interested', because I am taking the heat off of Hopkins) Hopkins is the only one that has cut down expenses in Washington and the one that costs us more than anybody is Wallace. My hat is off to him. He is getting away with murder. He said, 'How about the farm organizations?' and I said, 'Henry, that's your cross. You bear that.'

(HM, Jr. gave instructions that photostatic copies of Myers' study be given to Bell, Taylor and McReynolds.)

Mr. Bell: By the way, we got \$300,000,000 from the Doheney Oil, from that old suit out there.

Miss Roche: Nothing special.

Mr. Gibbons: Nothing.

Mr. Gaston: We have that monthly announcement of net purchases of Government securities today. I think probably we had better release it after press conference.

HM, Jr.: I think so. Release it after the market closes.

Mr. Gaston: Yes. I think so.

Mr. Oliphant: Nothing but the Smith letter.

HM, Jr.: All right; stay after this meeting for that.

Mr. Magill: You had a letter from Congressman Cochran regarding a constitutional amendment which he has introduced to tax Federal and State employees, and I prepared an answer to it.

HM, Jr.: Yes? Or No?

Mr. Magill: What he asked was, first, to prepare the amendment. Well then, in between, what he actually did was to get Mr. Hester and get him to draft it informally, so we stepped around the proposition of giving him an amendment and we have given him some general information.

So far as taxing Federal people, he's particularly interested in employees of the Federal Reserve Banks and National Banks and if there is any question on that score, Congress can

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remove it by statute.

HM,Jr: Does it indicate which way I am for it?

Mr. Magill: Yes.

HM,Jr: Do I understand that Federal employees or other Federal salaries

Mr. Magill: Are not subject to State income taxation at present, but they are subject to Federal taxation.

HM,Jr: Federal. Right. And State employees pay no Federal tax?

Mr. Magill: That's right.

HM,Jr: Why not remove the whole thing?

Mr. Magill: We should. We think we should.

Mr. Oliphant: Except he's not on Ways and Means. Hester has become a great friend of Cochran's since he has convinced Cochran that McCarl is unconstitutional.

HM,Jr: Why not go the whole way?

Mr. Magill: What we tell him is what we are doing -- that is, we are making a pretty vigorous study to see what we can do. There are some things we can do without constitutional amendment which we have not done yet. I would like to talk to you. The reason I brought this up, we certainly ought to do something.

HM,Jr: Since we don't make recommendations to Congress, let's put the bee in Doughton's bonnet.

Mr. Magill: You remember, you were up before the Judiciary Committee three or four years ago. I went up with you. This type of amendment has been advocated by all the Secretaries of the Treasury I know about, but nothing ever happens.

HM,Jr: Let's talk to Doughton about it.

Mr. Gaston: I think it would be timely to start something about studying taxation of Federal bonds.

HM,Jr: Let's have Doughton down as soon as the Budget

-5-

is over.

Mr. Magill: The middle of next week?

HM, Jr: Yes.

Mr. Bell: Another thing we need is a constitutional amendment to give authority to veto items in appropriation bills.

HM, Jr: You don't need constitutional amendment.

Mr. Bell: Oh, yes.

Mr. Magill: I have one of those letters -- we finally completed letters we are sending out to Internal Revenue agents for improved procedure in the field and expect to have a meeting in May to go over it with them and get any ideas they may have after getting these letters.

HM, Jr: All right.

Draft #1 by President
White Thursday P.M. April 15, 1937, 11

TO THE CONGRESS OF THE UNITED STATES:

In my message to the Congress of January 5, 1937, transmitting estimates of receipts and expenditures for the current fiscal year and budget estimates for the fiscal year 1938, I said that later on I would transmit estimates for relief expenditures for next year at a later date.

Figures computed four months ago gave a net government deficit for the current fiscal year (not including debt retirement) of \$2,200,000,000. They showed an estimated balance (not including debt retirement) for the fiscal year 1938 of \$1,537,000,000 without any recommendation for relief appropriations. On these figures, therefore, an appropriation for relief for the year 1938 of any sum less than \$1,537,000,000 would have left a favorable balance in the Treasury for the year ending June 30, 1938. In other words, no new Federal fund would have had to be borrowed during that fiscal year.

Since January, however, certain new factors make it right and necessary for me to advise the Congress that as of today new estimates must be reported.

The principal factor lies in tax receipts below our expectations. The following table shows the new revision for 1937 and for 1938 in comparison with the figures submitted on January 5.

(table with four columns. The first two showing falling off of taxes as of January 30, 1937. The next two showing falling off of taxes for fiscal year 1938).

The government, therefore, would have a deficit for the current fiscal year of \$2,800,000,000 or an increase of \$600,000,000. In order to reduce this increase, I have taken every step possible by calling on the heads of all departments and agencies of the government to curtail their expenditures as much as possible between now and July first, the money so saved to revert to the Treasury. In regard to the fiscal year 1938, I propose, insofar as possible with due regard to proper functioning of the executive departments and agencies, to withhold, beginning July first, as large a percentage of all funds appropriated as possible. I anticipate, therefore, that in both fiscal years that actual expenditures from the Treasury will be materially less than the estimates sent to the Congress last January and that a substantial portion of the decrease in estimated tax receipts will be made up for by less spending. If the Congress is still in session at the end of this fiscal year I shall be glad to give to you a further picture of the situation as it then appears.

It is my belief that the Treasury estimates of tax receipts during the balance of this year and during the next year are

conservative and it is possible that actual receipts will slightly exceed these estimates.

All of the above, I have predicated on two highly important conditions. The first is the extension of existing taxes which expire this year. The second is the maintenance of actual appropriations by the Congress at this session within the total of the estimates. Any substantial increase in appropriations would of course definitely throw the 1936 budget out of balance. And, while I recognize the desirability of improving many social and economic conditions, I trust that new programs, if adopted by the Congress, will call for a minimum of additional expenditures, at least until we can see more clearly what existing taxes will bring in.

May I respectfully repeat what I said in January.

(put in here the demand for new taxes if new appropriations are made in any large volume.)

There remains the item of an appropriation for relief of the unemployed -- an appropriation which I trust can be made available early in June in order that proper planning can be had and taken for its expenditure from July first on.

★ In approaching the problem of relief once more it is clear that it still remains a problem and will remain a problem of the national government for many years to come.

Many intelligent persons approach it with insufficient knowledge and with the primary consideration of dollars and cents. Their attitude, in effect, is that the states and counties and municipalities should reassume the whole burden as was the case prior to 1933. The simple answer is that the great majority of states, counties and municipalities cannot assume the whole burden and remain solvent. This school of thought then proceeds to the hypothesis that the Federal Government should cut its relief appropriations to whatever sum is necessary to balance the Federal budget. When it is pointed out to them that such a sum would be wholly insufficient to give work to those unemployed who can work, they fall back on the suggestion that the government give them home relief only or in other words a dole without work.

I continue my oft expressed opposition to a dole. Those same gentlemen to bolster their argument then tell us that the work performed by those on work relief projects is less efficient than if the same work were carried on by a private contractor. That is to a certain extent true, but to a less degree than they suppose.

→

Let me give a simple illustration. If a needy unemployed man on the dole is paid twenty dollars a month to keep soul and body together, you have the cheapest form of relief. If he is paid forty dollars in the course of a month for actual work performed, it is possible that because he is unskilled or because he is old, he does not perform so efficiently as a contractor's man. Even if he is only seventy-five percent as efficient as a contractor's man, the government still saves money by paying him the extra twenty dollars to work instead of sitting idly at home.

Therefore, I strongly recommend that work continue to be provided for the unemployed just as far as the Federal Government can properly provide it.

During the past year a continuing check up has been made for the purpose of eliminating from the relief rolls those who should not be given work relief. Furthermore, there has been large reemployment by private industry. The result is that today only 2,200,000 unemployed are at work on Federal projects as against 3,300,000 last year.

Definite progress is being made in making it possible for persons performing relief work to take private employment and if

this private employment ends to return to the relief rolls without an unreasonable delay.

The character of work performed has also improved in quality and usefulness.

It is idle to say that no more useful work can be found. Many projects in cities, villages and country districts, calling for a maximum of labor and a minimum of materials still exist. It is my thought that as we develop maximum planning for the preservation of our natural resources more and more useful work of such kind can be made available to relief workers. As a corollary to this it seems wise, at this time, to spend less money on permanent structures which require a large amount of heavy material and a small amount of labor on the site.

I should like to make two appeals. The first is to those citizens in every part of the country who complain of the conduct of work relief or the projects and request to bring to the attention of the government any and all specific cases of which they have knowledge. To assist in this, I am causing to be published as widely as possible, the name of the principal relief agent in every state, county and municipality. Every complaint will be investigated and

if the complainant is ^{not} satisfied, appeal can be taken directly to Washington. If any citizen knows of any person or group of persons who do not deserve to be on the relief rolls, let him or her speak up. If any person knows of any individual on the relief rolls who declines to take a job in private employment, let him or her speak up. This does not include, however, the many cases where private employers have offered to give jobs to relief workers at starvation wages. No relief worker should be compelled to take starvation wages in private employ.

My other appeal is to the other employers throughout the Nation. On them will rest the final figures of necessary relief expenditures for the fiscal year 1938. It should be pointed out to them that a very large proportion of those now on the relief rolls are unskilled workers or men and women above the age of forty and not yet eligible for old age pensions. If every employer in the United States, large and small, could give jobs to these fellow-citizens who are now doing relief work, our problem in the national legislature and in the Administration would be greatly simplified. Even if such employment is given for only a few months — even if it reports only a small proportion of those now employed by private

industry, it would greatly help. There are today in the United States approximately forty million people who work for wages. If the employers of the United States would, during the coming year, take on two million or even one million of those now on the relief work rolls, they would be doing more than helping their government -- they would be helping humanity as well.

April 15, 1937.
11:45 a.m.

H.M.Jr: Hello

Operator: Governor Harrison.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello

H: Hello

H.M.Jr: George?

H: Yes Henry,

H.M.Jr: How are things going to-day?

H: Well - ah - there's not much activity.

H.M.Jr: Ah-ha.

H: The bonds are holding steady at highs of the morning - up anywhere from 1/32d to 5/32d's better than last night.

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

H: Guarantee they shoot her up two to four thirty-seconds.

H.M.Jr: Are you doing anything - I mean either way?

H: No, we haven't done a thing either way.

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

H: No, I don't - you see my theory about the sales is that if - the things are rising pretty rapidly and fellows are scratching around to find bonds.....

H.M.Jr: Yes.

H:and can't do it with - artificially running up the price at the risk of it falling back again tomorrow.

H.M.Jr: Yes.

- 2 -

H: I'd rather let them have it.

H.M.Jr: Yes, I think that's all right.

H: And that's all we've done.

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

H: And I think that's good business under any kind of operation.

H.M.Jr: Ah - I agree with you. I have no argument with you.

H: Yes.

H: Now - ah - ah - ah - what our authority is to-day I don't know. I mean if Eccles feels one thing I may feel another but at the moment there hasn't been any occasion to act so I haven't raised any issue.

H.M.Jr: Well as far as I - I think it - the market gives all the appearances of a healthy tone.

H: Yes, I think so.

H.M.Jr: Yes.

H: No, I - I think it's going along very well. Ah - the dealers - some of them talked to Sproul this morning and said they were all waiting rather eagerly for our statement.

H.M.Jr: Well they'll get mine tomorrow - morning's paper show I bought 120 million last March. You know we release that on the 15th you know.

H: What do you mean the month of March.

H.M.Jr: Well we bought 120 million dollars worth of bonds in the month of March.

H: Yes.

H.M.Jr: We release it on the 15th.

H: You mean that will come out tomorrow?

H.M.Jr: Yep.

- 3 -

- H: You haven't bought any since this week though, have you?
- H.M.Jr: No - no but that - we release on the 15th of each.....
- H: Yes.
- H.M.Jr:month what we did the previous month.
- H: Yes, I was just thinking these fellows - the reaction that we get from everybody confirms my own hunch, and I think Eccles is rather inclined to agree with me, that if - ah - we were able to show no increase this week at all -
- H.M.Jr: Yes.
- H:I mean this past week.....
- H.M.Jr: Yes.
- H:and the market had been strong that would have been very bullish.
- H.M.Jr: Yes.
- H: Ah - however, that isn't a fact; we have shown and will show an increase of around 27 million.
- H.M.Jr: Yes.
- H: Now I really think that it would be wise in talking off the record to these newspaper fellows the way we are able to here in New York and never
-.....
- H.M.Jr: Yes.
- H:and let them know that the market has been on it's own for the last several days.....
- H.M.Jr: Yes.
- H:and has not been supported by anybody. I mean I didn't - I wouldn't put in those words that way...
- H.M.Jr: Yes.

- 4 -

- H: But I mean that the market has been a natural market for the last several days; it's been so ever since last Friday.
- H.M.Jr: Yes, well - ah - I just.....
- H: Ah - because I'm sure otherwise, with an increase almost as big as last week,.....
- H.M.Jr: Yes.
- H:they'll wonder how long or how late we've been buying and whether this rise now may not be due to our operation.
- H.M.Jr: Well that's more or less what the financial page of the Tribune said to-day.
- H: I didn't see that.
- H.M.Jr: Well you take a look at the financial page.....
- H: Yes.
- H.M.Jr:and - no I think that they could get over the idea that this is a natural market this week. I think it's all to the good.
- H: I think it's all to the good too and naturally I wanted to get your reaction.
- H.M.Jr: No question about it.
- H: Eccles' agrees with me.
- H.M.Jr: No, I agree with you. It's unanimous - wonderfull - congratulations.
- H: (Laughs) Well I - I - now you'll - you'll all laugh at me, of course, because I'm a but if the market continues to go up, say, all this current week.....
- H.M.Jr: Yes.
- H:then I would think that the most successful thing, from the point of view of the system and the Treasury and the market,.....
- H.M.Jr: Yes.

- 5 -

H:would be if we could show a slight decrease in the account.

H.M.Jr: Well that I wouldn't want to give a yes or no. There - there - there I don't know. I'd like to think that over.

H: Well, all right I wish you would.

H.M.Jr: No there - there I - my stock judgement would say "No".

H: Well it would - it would do the thing that you've been after to do for a long while; it begins to get that damn flexibility.

H.M.Jr: True but let me mull that over, will you?

H: Yes, sure.

H.M.Jr: That's pretty important.

H: Oh well I can't do it; I'm not authorized, Henry.

H.M.Jr: Oh, no.

H: I'd have to have a meeting of my Committee
to authorize it.

H.M.Jr: Well - all -

H: I'm just giving you what my reaction is and what I get from everybody up here.

H.M.Jr: Thank you. Well cheerio.

H: All right, sir.

H.M.Jr: Goodbye.

April 15, 1937.
11:54 a.m.

H.M.Jr: Hello

Operator: Mr. Rentschler

H.M.Jr: Hello

O: Go ahead.

H.M.Jr: Hello

R: Hello there stranger, how are you?

H.M.Jr: I'm pretty well. How are you?

R: Well I'm fine thanks.

H.M.Jr: Ah - Mr. Rentschler I'm calling up to make a suggestion that might or might not suit your plans.

R: Yes.

H.M.Jr: Mrs. Morgenthau is going up to Princeton tomorrow so I'm going to be here alone tomorrow evening and I wondered if by any chance you were so situated you might care to run down and spend an evening with me.

R: I'd love to and I think I can do it - ah - let me see - yes I can do it.

H.M.Jr: Well -

R: And I'll leave - I'll come down in the afternoon and leave on the midnight. Will that be all right?

H.M.Jr: You can come - come right to the house and take a room and rest until supper time and - what time would you get in about?

R: Well I'll - I'll just come down on one of the early afternoon trains.

H.M.Jr: You mean leaving New York?

- 2 -

R: Leaving New York, yes, so that I'll - I'll try to get into Washington around six o'clock.

H.M.Jr: Well you might come right up to the house. There's no use in.....

R: I'll come right up to the house so we can have a longer evening; then I'll come back on the midnight.

H.M.Jr: That will be fine. I live at - you know - 2201 R

R: Yes, I know - I know where it is, of course.

H.M.Jr: And I - I'd like - I have - I've been so situated I couldn't - I didn't dare talk.

R: Yes, very well - I understood.

H.M.Jr: And a lot of this stuff is behind and I - I.....

R: Good for you. It's behind and it looks pretty good.

H.M.Jr: And I'd like to just get some first-hand information.

R: Yes, well I'm delighted to come down and I'll be down - I'll come right straight to your house from the train.

H.M.Jr: Thank you.

R: All right, fine, it will be awfully nice to see you.

H.M.Jr: Right.

R: Bye-bye.

H.M.Jr: Goodbye.

April 15, 1937.
11:45 a.m.

H.M.Jr: Hello

Operator: Governor Harrison.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello

H: Hello

H.M.Jr: George?

H: Yes Henry.

H.M.Jr: How are things going to-day?

H: Well - ah - there's not much activity.

H.M.Jr: Ah-ha.

H: The bonds are holding steady at highs of the morning - up anywhere from 1/32d to 5/32d's better than last night.

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

H: Guarantee they shoot her up two to four thirty-seconds.

H.M.Jr: Are you doing anything - I mean either way?

H: No, we haven't done a thing either way.

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

H: No, I don't - you see my theory about the sales is that if - the things are rising pretty rapidly and fellows are scratching around to find bonds.....

H.M.Jr: Yes.

H:and can't do it with - artifically running up the price at the risk of it falling back again tomorrow.

H.M.Jr: Yes.

- 2 -

H: I'd rather let them have it.

H.M.Jr: Yes, I think that's all right.

H: And that's all we've done.

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

H: And I think that's good business under any kind of operation.

H.M.Jr: Ah - I agree with you. I have no argument with you.

H: Yes.

Now - ah - ah - ah - what our authority is to-day I don't know. I mean if Eccles feels one thing I may feel another but at the moment there hasn't been any occasion to act so I haven't raised any issue.

H.M.Jr: Well as far as I - I think it - the market gives all the appearances of a healthy tone.

H: Yes, I think so.

H.M.Jr: Yes.

H: No, I - I think it's going along very well. Ah - the dealers - some of them talked to Sproul this morning and said they were all waiting rather eagerly for our statement.

H.M.Jr: Well they'll get mine tomorrow - morning's paper show I bought 120 million last March. You know we release that on the 15th you know.

H: What do you mean the month of March?

H.M.Jr: Well we bought 120 million dollars worth of bonds in the month of March.

H: Yes.

H.M.Jr: We release it on the 15th.

H: You mean that will come out tomorrow?

H.M.Jr: Yep.

- 3 -

H: You haven't bought any since this week though, have you?

H.M.Jr: No - no but that - we release on the 15th of each....

H: Yes.

H.M.Jr:month what we did the previous month.

H: Yes, I was just thinking these fellows - the reaction that we get from everybody confirms my own hunch, and I think Eccles is rather inclined to agree with me, that if - ah - we were able to show no increase this week at all -

H.M.Jr: Yes.

H:I mean this past week.....

H.M.Jr: Yes.

H:and the market had been strong that would have been very bullish.

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H: Ah - however, that isn't a fact; we have shown and will show an increase of around 27 million.

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H:and let them know that the market has been on its own for the last several days.....

H.M.Jr: Yes.

H:and has not been supported by anybody. I mean I didn't - I wouldn't put in those words that way...

H.M.Jr: Yes.

- 4 -

H: But I mean that the market has been a natural market for the last several days; it's been so ever since last Friday.

H.M.Jr: Yes, well - ah - I just.....

H: An - because I'm sure otherwise, with an increase almost as big as last week,.....

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H:they'll wonder how long or how late we've been buying and whether this rise now may not be due to our operation.

H.M.Jr: Well that's more or less what the financial page of the Tribune said to-day.

H: I didn't see that.

H.M.Jr: Well you take a look at the financial page.....

H: Yes.

H.M.Jr:and - no I think that they could get over the idea that this is a natural market this week. I think it's all to the good.

H: I think it's all to the good too and naturally I wanted to get your reaction.

H.M.Jr: No question about it.

H: Eccles agrees with me.

H.M.Jr: No, I agree with you. It's unanimous - wonderful - congratulations.

H: (Laughs) Well I - I - now you'll - you'll all laugh at me, of course, because I'm a but if the market continues to go up, say, all this current week.....

H.M.Jr: Yes.

H:then I would think that the most successful thing, from the point of view of the system and the Treasury and the market,.....

H.M.Jr: Yes.

- 5 -

H:would be if we could show a slight decrease in the account.

H.M.Jr: Well that I wouldn't want to give a yes or no. There - there - there I don't know. I'd like to think that over.

H: Well, all right I wish you would.

H.M.Jr: No there - there I - my stock judgment would say "No."

H: Well it would - it would do the thing that you've been after to do for a long while; it begins to get that damn flexibility.

H.M.Jr: True but let me mull that over, will you?

H: Yes, sure.

H.M.Jr: That's pretty important.

H: Oh well I can't do it; I'm not authorized, Henry.

H.M.Jr: Oh, no.

H: I'd have to have a meeting of my Committee to authorize it.

H.M.Jr: Well - all -

H: I'm just giving you what my reaction is and what I get from everybody up here.

H.M.Jr: Thank you. Well, cheerio.

H: All right, sir.

H.M.Jr: Goodbye.

April 15, 1937.
4:20 p.m.

H.M.Jr: Hello

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello

Eccles: Ah - Henry, I was talking to George Harrison.....

H.M.Jr: Yes.

Eccles:and he had to go to some meeting....

H.M.Jr: Yes.

E:and I told - he asked me if I was - if I was going to talk to you and I told him I would.

H.M.Jr: Yes.

E: Ah - now what they did up there - the market closed pretty strong as you possibly know.....

H.M.Jr: Yes.

E:and they sold six million of 1940 notes.

H.M.Jr: Six million - that's for the system.

E: Yes.

H.M.Jr: Yes.

E: Now those notes were sold at 4, 5 and 6/32d's.....

H.M.Jr: Yes.

E:above last night's close.....

H.M.Jr: Yes.

E:and last night's close was strong so that indicates how strong the market was for the notes to-day.

H.M.Jr: Yes.

- E: And he said - he said these particular notes - the system - oh in a very large amount - they have 222 million.....
- H.M.Jr: Yes.
- E:of this particular issue.....
- H.M.Jr: Yes.
- E:and that on account of the market being as strong as it was and they just weren't available in the market at except higher prices than this.....
- H.M.Jr: Yes.
- E:that they sold that six million.
- H.M.Jr: Well do you see any objection?
- E: Well I don't see any objection, no but - but what I - what I think they ought to do now, as I told George, - that - that we ought to be in a position to support that bill market.
- H.M.Jr: Yes.
- E: That what I'm anxious to do now is to notes and bonds.....
- H.M.Jr: Yes.
- E:and that market is strong....
- H.M.Jr: Yes.
- E:I'd like to get in a position here so as to insure a successful short term Treasury financing during the next two or three weeks.
- H.M.Jr: That's fine.
- E: And that's - and - and I told George that I don't want, as far as - the way I feel about it I don't want our portfolio to show any decrease.
- H.M.Jr: Fine.

- 3 -

E: That - that - that this money we get from selling.....

H.M.Jr: Yes.

E:we want it available on Monday to help in the bill market.

H.M.Jr: Swell.

E: And if need be.....

H.M.Jr: Yes.

E:if we don't have enough that way then, as far as I'm concerned, the way I personally feel about it now.....

H.M.Jr: Yes.

E:is that I wouldn't object to increasing our portfolio to buy bills - ah - if - if we feel the market needs it.

H.M.Jr: Yes.

E: Now there was one million of Treasury bonds bought -

H.M.Jr: Yes.

E:I mean sold to-day.....

H.M.Jr: Yes.

E:just a million.

H.M.Jr: Yes.

E: That was the 2-3/4's of 51-54.....

H.M.Jr: Yes.

E:and they were sold at 9/32d's.....

H.M.Jr: Yes.

E:higher than last night's close.....

H.M.Jr: Yes.

- 4 -

E:so if.....

H.M.Jr: Now let - if I understand it - ah - this seven million they've got they're going to put it into the bill market?

E: They didn't put it in to-day.

H.M.Jr: No but they will on.....

E: They will - well that's what they'll do if they do what I want them to do and George didn't raise any objection to it.

H.M.Jr: Can you bid directly under the law?

E: No we can't bid directly but what we can do is to go in Monday morning.....

H.M.Jr: Yes.

E:before the bids and let the dealers know that we're in the market.

H.M.Jr: For seven million.

E: Well we don't - they don't know how much because you go to various dealers, you see. The point is they know you're a support in the market - you're in the market.

H.M.Jr: I see.

E: And - and it's - ah - Burgess, I know, seemed to feel.....

H.M.Jr: Yes.

E:that - that - that - that that is usually very effective in letting them know that.....

H.M.Jr: In other words, they - they then go in and bid figuring that you'll take it off their hands if necessary.

E: Well there's that feeling, yes, but they know you're interested in the bill market, see?

- 5 -

H.M.Jr: Well - ah - what you tell me sound all right.

E: Now -

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

E: Now, of course, we don't want to start now picking up bills because I think it's better to concentrate in all these funds and - and - and - and be prepared on Monday.

H.M.Jr: Because - that sounds all right and as I understand it - ah - if - if there's any change in policy, that is to say, if we're going to let the portfolio run off you talk to me first.

E: Well they can't - they - they haven't got authority to - the - New York hasn't got authority to do it - the - the - the - the - the Committee has got to meet and act on it.

H.M.Jr: Oh.

E: And - and I'm - the Committee is not going to meet until they meet with you on Tuesday so we won't change the policy until after we've had a meeting.

H.M.Jr: Well what you tell me sounds fine.

E: Yes, well it looks all right - it looks all right to me the way it's going along now.

H.M.Jr: Yes, it's going along fine.

E: Yes.

H.M.Jr: I'm entirely satisfied.

E: Well that's fine.

H.M.Jr: Thank you.

E: All right, goodbye.

April 16, 1937.
10:50 a.m.

H.M.Jr: Hello
Operator: Vice-President.
H.M.Jr: Hello
O: The Secretary is on.
H.M.Jr: Hello - hello
O: She said she was putting him on.
H.M.Jr: That's all right. (Aside to someone in his office -
"The Vice President")

* * * * *

H.M.Jr: George?
Harrison: Hello Henry.
H.M.Jr: How are you?
H: I'm all right, thank you. Ah - I wanted to call you
yesterday afternoon before I left but my meeting was
so long and then I had to have a four o'clock meeting
uptown.
H.M.Jr: I see.
H: So I asked Marriner to tell you what we had done for
the day.
H.M.Jr: He did and - ah - he told me about saving the money
to use to stiffen up the bill market on Monday.
H: Well I think this - that, if as I expect, we're not
going to show any reduction in the account.....
H.M.Jr: Yes.
H:the best thing for us to do would be to make
our purchases in bills unless, of course, there should
be some further decline in the bond market which makes
it necessary for us to operate in bonds too.
H.M.Jr: Yes, well, of course, you got some money from us that
you can use in bonds now.

H: Have we? I didn't know that.

H.M.Jr: Well I - we've - we've been trying to sell ten million of these Postal Savings.

H: Oh yes I did know about that.

H.M.Jr: And they sold, I guess, about half of them anyway.

H: Good.

H.M.Jr: And that's to be used for bonds when there's a break, see?

H: Yes.

H.M.Jr: Well I'd like to see.....

H: Well I thought we had an order in for those only on the 2-7/8's.

H.M.Jr: Yes but if you found that the - that was when we put that in because they were the.....

H: Ah-ha.

H.M.Jr:- ah - showed the highest yield.

H: Yes.

H.M.Jr: But I'll tell the boys that if there comes a break and some other bond breaks below why we'd buy that.

H: Oh I see.

H.M.Jr: I was putting it in to buy the one which showed the best yield.

H: Oh I see.

H.M.Jr: See?

H: All right, well that - that - it'll be better if they just clear that up because I think Madison thinks he's got only one order on that.

H.M.Jr: I'll - I'll - I'll clear it right away. I'll send for Archie.

H: All right.

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H.M.Jr: And - ah -

H: Now - ah - the market to-day is off just a little but it's very inactive.

H.M.Jr: Well I like the idea of trying to encourage the bill market a little bit.

H: Well I - I have no real objection to doing that. The only thing I want to avoid, as you do I know, is doing anything that appears to be working anyone of these markets just before an issue.

H.M.Jr: Yes, well we'll talk again Monday?

H: Oh, yes we'll talk before that I hope.

H.M.Jr: All right.

H: (Laughs)

H.M.Jr: Thank you.

H: All right.

HOTEL NICOLLET

MINNEAPOLIS, MINN.

April 15, 1937

To the Secretary:

Tonight I cannot beg, borrow, or steal a typewriter nor can I find a public stenographer.

Timberlake and I have returned home late from an all day auto trip visiting country bankers in small towns West of Minneapolis.

I will just report briefly tonight that they seem all in good spirits, making money, prospects good, commercial loans increasing - having little criticism of the Treasury or the Government. They are undisturbed about Treasury bonds, expected a drop in prices, bear no resentment even about the March 15th 2 1/2's, and are almost uniformly friendly

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HOTEL NICOLLET

MINNEAPOLIS, MINN.

and happy. They have some reservations about relief and think spending ought to end soon, but there is no talk of inflation fear. The section is very prosperous and the bankers are pretty tolerant of even labor attitudes. Building costs are rising and too high most agree. Crop prospects seem the best for some years, moisture being better than for some time.

These bankers talk little of Government competition, with one or two exceptions and seem to welcome Government lending agencies, rather than the opposite.

If these bankers are a fair sample, Mr. Peyton is right in his statement that not a banker in the Ninth Federal Reserve District is upset over the



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decline in Governments. They all seem to have expected it as a natural development. Some sold before the break and are now buying back. Some held and will hold as an investment regardless of price. They are more interested in an increased interest yield on other earning assets than in the price of Treasury issues. This despite the fact that local loans run 6 to 8 per cent. Most of them do not like F H A loans.

L. Pham



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DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
WASHINGTON

April 15, 1937

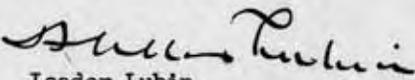
OFFICE OF THE COMMISSIONER

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

My dear Mr. Secretary:

I am sending you herewith, as I promised,
the report that I made to the President and to
your group this morning.

Very sincerely,


Isador Lubin

MEMORANDUM ON THE ECONOMIC SITUATION

Prepared by the Central Statistical Board and the Executive Secretary of the Central Statistical Committee

During the past five months, despite temporary interruptions because of strikes, American industry has been operating at a high rate. In terms of physical output of goods, production during the past five months has been almost as large as the average in 1929. The only important industries which are lagging to any marked extent are private building and some of the industries that make the materials used in building. It is obvious that private industry has attained considerable momentum.

Employment

1. The momentum attained by private industry has been reflected in the employment situation. Re-employment has proceeded rapidly. Total employment in all non-agricultural occupations (manufacturing, mining, transportation, public utility, professional service and service industries) is only about one million less at present than at the peak period in the spring of 1929. Since the trough of the depression in early 1935 it is estimated that about eight million workers have been re-employed in non-agricultural occupations. This is a minimum estimate.

Despite the re-absorption of this large number of workers, there is considerable unemployment due to the growth of the total population of working age since 1930, which is estimated to be approximately $3\frac{1}{2}$ millions. Among the unemployed is a sizeable group of persons who are no longer employable in regular competitive industry. The result is the anomalous situation of shortages of skilled labor in certain mechanical trades and in building construction in some parts of the country, coincident with a large number of unemployed.

Production

2. Due to the fact that the population of the United States is now nearly 10 per cent greater than the average of the years 1925-1929 industry must now produce at a rate at least 10 per cent greater than in those seven years if the goods available per person is to be equal to the amount then available. Industrial production during the past four months has been at a rate which is about 10 per cent in excess of the average for the years 1925-1929.

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This current high level of production comes at the end of a long depression period, during which important deficiencies accumulated in the nation's supply of goods. The accumulated depression deficiency in consumers' goods is very much smaller than in durable goods. Total production of consumers' goods between 1930 and 1938 approximated 94 per cent of the average for the seven years 1925 through 1929; while the production of durable goods was only 62 per cent as large. Meanwhile, a part of the existing supply wore out or became obsolete. Now demand is coming in with a rush. It is important to note, however, that this large demand became effective only very recently. This is particularly true in some of the durable goods industries.

3. Consumers' goods are being produced at a relatively high rate and for the most part the current larger needs of the nation are being met more adequately than are the demands for producers' goods. Some consumers' goods are now being produced at a much higher rate than in the decade of the 20's.

For example, during the last four months textile fibers were made into cloth at a rate at about 25 per cent greater than the annual average in the years 1925 to 1929. The output of shoes was 30 per cent greater, and the production of tobacco products was 55 per cent greater. Moreover, these industries operated at a relatively high rate during the past two years, and have probably gone far toward supplying such deficiencies as have existed.

The main exception to the high rate of production in consumers' goods for immediate use is food. Due to the drought and other crop limiting factors, the quantity of food produced for domestic consumption during the current crop year, as reported by the Department of Agriculture, is about 8 per cent less per person than in the average of the pre-depression years 1925 to 1929. In particular, supplies of meats, eggs and potatoes are smaller than in the 20's. The principal increases in the available supply are in canned fruits and vegetables.

4. Another group of consumers' goods that has been feeling the effects of recovery are certain durable goods, namely, automobiles, furniture, curtains, rugs, refrigerators, radios and household equipment. Most of these industries, with the exception of automobiles, produced a larger volume in 1938 than in the 20's. Their employment is at present near the highest levels on record. It does not appear that production of durable consumers' goods has yet supplied all necessary replacements and new demands. We have reason

to believe that the income of the wage earner and lower-salaried families will increase this year and that this will result in a further increase in the demand for these durable consumers' goods, as well as for clothing and other goods for immediate consumption.

Recent studies of family expenditures by the Bureau of Labor Statistics show that any perceptible increase in the income of the wage earner and lower-salaried city families means a proportionately larger increase in the demand for durable consumers' goods.

6. The increase in demand of the next few years should be most marked in housing. Recent figures of the National Bureau of Economic Research show that the total number of family dwelling units built in urban areas in the seven years 1925 to 1929, totaled nearly 5,700,000. In the first seven years of the present decade (1930 to 1936) only 1,100,000 dwellings, or less than one-fifth as many, were provided. Due to obsolescence it is quite probable that American families are not as well housed today as in the decade of the 20's.

The potential demand for durable consumers' and producers' goods, which should become effective in the not-distant future, has a definite bearing on the productive capacity of our factories and on the ability of the transportation and service industries to meet our needs.

Prices

1. The factors in the present situation that might prevent maintaining production at a level which will make possible the replacement of the nation's depleted supply of goods are the price situation and the labor supply.
2. Although the aggregate supply of labor available is much larger than at any corresponding period in the past, certain bottlenecks will continue to appear unless apprenticeship and re-training is stimulated.

+

3. The present wholesale price index is approximately 8 per cent below that of April 1929. It is almost 50 per cent above April 1955. The prices of many individual commodities, however, are today higher than in 1929.

Although textile products are at 85 per cent of their level of the spring of 1929, woolen goods are above the 1929 level and cotton goods are almost as high. Both of these industries are producing at record levels. Many mills have orders booked for months ahead and profit margins are wide. Knit goods and silk and rayon prices, however, are much lower than in 1929. Metal products as a group are about 8 per cent below their 1929 levels, and their rate of output is also high and orders are piling up. Iron and steel prices are above 1929; steel sheets by 8 per cent, and steel scrap by more than one-third. Building material prices are as high now as in the spring of 1929. Lumber is at 108 per cent of the 1929 level, structural steel is at 118.5, brick and tile at 97, and cement at 105. These prices did not decline as much as others during the depression and building activity is still relatively low.

The marked increase in wholesale prices is the result of four factors: (a) a legitimate demand for the replacement of depleted stocks of goods, (b) speculative activity, (c) the inability of certain industries to expand output without resorting to the use of less efficient plants and equipment, and (d) wage rate increases. The situation has become particularly acute because of the fact that the unfilled demand in several industries appeared relatively suddenly during the past year. In the lumber industry, for example, the increase in demand has found the industry with negligible stocks of good quality lumber and consequently an inability to meet the requirements of the market. In the non-ferrous metal industries the abnormal demand, arising in part from war needs, has created the additional factor of speculative buying and storage for future needs.

A particularly significant illustration of the price situation is steel scrap. Since the beginning of 1956 scrap prices have increased 85 per cent. This rise in price is due primarily to the increased domestic demand. However, foreign exports, although equal only to 15 per cent of total consumption of purchased scrap in the United States, have been an important factor in this price rise. Exports are now $5\frac{1}{2}$ times as large as in 1929. The increased demand from abroad has come primarily from Japan, Italy and the United Kingdom. Higher prices for scrap affect especially a group of smaller steel producers who have no iron ore nor blast furnaces and who must buy scrap at moderate prices in order to operate at a

-5-

profit. It appears that there has been some speculation in steel scrap. During the past few days prices have weakened for the first time in many months.

4. The increase in wholesale prices has not yet been fully reflected in the cost of living. Between June 15, 1956 and the present time the cost of living has risen by only about 2.5 per cent. The increase in the cost of living has lagged because of the relative slowness in the advance of rents and the fact that many of the products purchased during the current months were purchased by distributors at the price level of the summer and autumn of 1956. Present indications are that rentals and the retail prices of clothing, household furnishings and furniture will be markedly higher in the autumn than at present.

This increase in the cost of living may have a definite bearing on the future of wage rates.



W. I. MYERS
GOVERNOR

FARM CREDIT ADMINISTRATION
WASHINGTON, D.C.

April 15, 1937.

The Honorable
The Secretary of the Treasury

Dear Henry:

I wish the President would call Marvin Jones and ask him to taper off interest rates paid by Federal land bank borrowers starting with a rate of, say, 4 per cent, beginning July 1, and going back to the contract rate provided in the mortgage within a period of not more than two years. This would cost about \$21,000,000 a year in subsidies while most of the present bills being considered provide for a continuation of the 3-1/2 per cent rate which would cost about \$32,000,000 a year.

The interest rate charged borrowers in the new Farm Tenant Bill is of great importance because it will be used as an argument for reducing rates to all other classes of farm and city borrowers (about 6 billion dollars of loans). The present bill provides for a 3 per cent rate. It should not be less than 3-1/2, and preferably 4 per cent, since heavy cost to the government will be involved in supervision. As long as a lower rate is given to these borrowers, it will be impossible to get them to transfer their loans to the Federal land banks even though they are financially able to do so.

These matters are of very great importance because they will affect budget costs for several years to come.

Sincerely yours,

Governor.

April 18, 1937

My dear Mr. Attorney General:

I keep getting reports that there is the possibility of the settlement of the tax cases against E.M. Smith, E.M. Smith Company and Walter G. L. Smith of Los Angeles on the basis of a relatively minor change in the offer of settlement concerning which I wrote you on January 22, 1936. I am worried about these reports because of the unusual character of this case. Before any settlement at less than the full tax, penalty and interest is concluded, I wish that you would arrange for the two of us, with Mr. McGill and Mr. Oliphant, to discuss the matter with the President.

Sincerely,

Honorable Homer S. Cummings,
Attorney General,
Washington, D.C.

EH/egh

April 16, 1937

9:30 Meeting.

Present:

Mrs. Klotz
Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Lochhead
Mr. McReynolds

Mr. Magill: I think I have nothing more than what I discussed coming down with you.

HM, Jr: No Railroad Retirement! What age are you going to retire? 67½ or 70?

Mr. Magill: I think 70.

HM, Jr: Put down 50 for me!

Mr. Magill: Curious thing -- from all I read of the accounts in the paper, I can't find that any two of them tell the same story. Mr. Doughton gave an interview, I guess.

HM, Jr: Good! What else do you know?

Mr. Magill: Do you want a further report on these cases of where we are going into the foreign corporation situation. I am going to send a memo to Oliphant this morning, requesting that we have a letter drafted to these consuls in these various places where we think corporations are being organized and ask the State Department to get busy.

HM, Jr: I will go a step further: I want a systematic check of all American citizens living outside of the United States.

Mr. Magill: I talked to McReynolds. He is going to find out how to go about getting it.

HM, Jr: Let these consuls earn their salaries. I want a

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systematic check once a year.

Mr. Magill: On your tax-exempt constitutional amendment, I see by the papers that Mr. Doughton has a meeting of his committee, on Railroad Retirement, on Wednesday. Would you like to meet with him Tuesday or Thursday on this?

HM, Jr: Certainly not Tuesday.

Mr. Magill: Thursday looks like a possibility.

HM, Jr: You want to set a time now? They seem to like about four o'clock. All right, four o'clock Thursday.

Mr. Magill: I think that will be fine.

Mr. Oliphant: As a result of the Annenberg investigation we have this very interesting, not to say exciting, but very gratifying eight-page memo which I shan't undertake to brief because I think if you are going into that

HM, Jr: Who wrote it?

Mr. Oliphant: We did. Specifically, I did, but details were worked in by Hester and Tipton.

HM, Jr: I need a little excitement. The bond market has been good for one day.

Mr. Oliphant: It worked out beautifully. It looked impossible at first. Your Coast Guard man, his radio operators and some of the Martocis were very helpful and some of Ireys' men and Communications worked with us. They had gone into it; had a lot of files, A.T. & T. files.

HM, Jr: Good. O.K. You had some fun out of it, I can see.

Mr. Oliphant: Yes.

Mr. Gaston: I don't know of anything except more stories in Chicago. The Grand Jury again subpoenaed some of Yellowley's assistants.

HM, Jr: Well, these boys have this in hand.

Mr. McReynolds: Graves man went out day before yesterday.

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Mr. Gaston: The Grand Jury issued subpoenas for two or three of Yellowley's men, according to the Hearst papers.

HM, Jr: Does Oliphant know about it?

Mr. Oliphant: Yes. There is nothing to worry about. I may just send the clippings over to Joe for his information.

HM, Jr: I am not going to worry about it. We have a campaign set and we will go through with it. If you have anything, just send it in to Oliphant.

Mr. Gaston: I am turning over regularly to Harold Graves everything we get.

HM, Jr: Anything else?

Mr. Gaston: No.

HM, Jr: George?

Mr. Haas: I have nothing new.

HM, Jr: You know that sheet I took over and gave to the President? Can I have another one?

Mr. Haas: I sent you a couple yesterday.

HM, Jr: And Miss Lonigan used to give me, once a month, the total number of people getting checks. I have not had that chart for six months. You all right otherwise?

Mr. Haas: I am concerned about all this gold coming in. I think we will have to get an answer to capital movements -- the thing we worked on before, so we are taking it up and driving at it again.

HM, Jr: When are you going to be ready to talk?

Mr. Haas: Ready to talk now, but I don't have an answer.

HM, Jr: How can I talk back?

Mr. Haas: You can't. I feel we have to come to some solution.

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HM, Jr: When you have an answer, let me know.

We are in the room. I will just give you a little hunch of mine. Just a hunch and it has not crystallized. I think this thing is going to cure itself. Just a hunch. And I'll tell you why. Every day it looks as though this Spanish thing is going to be settled. Today's news is more encouraging than ever. If that thing is settled, with high interest rates in France and the war scare over, I think this thing will turn over and capital will stop coming in. So I am listening. And each day it's turning a little bit more towards selling -- a little more on the sales side.

Mr. Haas: There are balances coming in.

Mr. Lochhead: Special funds.

HM, Jr: Little signals here and little signals there, but the French, as you know, gained, what was it? 8,000,000,000 francs gold?

Mr. Lochhead: Yes, 8,000,000,000 francs.

HM, Jr: Now if this is correct that Mussolini and Stalin have agreed to have a plan to withdraw volunteers from Spain and then these fellows suddenly withdraw, they don't have to store wheat and cotton. You can see a collapse in commodity prices and see this whole thing turn just like this. (Gestures.) I am not saying it is, but I am beginning to get less jittery. Do you feel that way at all?

Mr. Haas: I have some of that feeling, but what has bothered me for several months is that here we have an important situation that we have no solution at all and what it is amounting to is this: that they are running this gold in here and taking our securities and it's just a situation that we could not tolerate to continue at the same rate it was coming in. In addition to that, I think that if it has not already, it will have an effect on your security market, because the fact of this gold coming in at this rate the market thinks it means more issues of bills to pay for the gold.

HM, Jr: But have you ever stopped to think that \$8,000,000,000 of foreign securities -- well, listen, you never want to hit

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a fellow in the jaw who has all your money.

Mr. Haas: Well, it's not hitting him on the jaw, but if he is coming in and taking chairs out of your house and you would rather have the chairs than what he is leaving ...

HM, Jr.: Well, put it another way. The man that has all your securities, you are going to be pretty careful how you treat him. What I am saying is there is another way to look at this \$8,000,000,000 on our kind of a gold standard. On our kind of a gold standard when the thing goes out, they have got to remember that we can write the rules. As I told Oumansky the other day, it's a great compliment for the Russians to send \$200,000,000 without even asking what the rules are, but, I said, if I was going to buy 10 shares of General Motors I would at least lift the hood up to see if they are making a 4 or 6 or 8 cylinder, but the Russians are sending it over here without knowing the rules. Japan does not know and they send their smartest men here and, I said, we will do for Russia what we do for Japan. But \$8,000,000,000 can only go out on rules we write here. I am not so jittery about it.

As long as we haven't anything important to talk about, the other thing is this: pick this up somewhere: the price of \$35.00 for gold also is an anchor to keep things from going higher. Nobody has said much about that. They all say about lowering the price, but there has not been much talk except, For God's sake keep it at \$35.00. Just as long as it is \$35.00, it is a definite peg on prices.

Mr. Haas: Yes, after you take up the slack in the rope.

HM, Jr.: I am not so nervous. If I didn't see signals; if there were not certain things in the air looking towards calmer times, etc., and so on, I would be more fidgety about this gold coming in. But I still say, if you could have a solution -- but I think the solution is coming to come

Mr. Haas: Temporarily solve itself.

HM, Jr.: I think so.

Mr. Oliphant: I am not nervous now, but I would like to have a partner.

HM, Jr.: We have a partner who is more nervous than we are. Don't worry. It's Great Britain. It's far more important to them than to us.

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Mr. Haas: Sure. If we put a restriction on it here, it would all be in their lap.

Mr. Oliphant: Let them take about half of it.

HM, Jr.: You keep plugging and one of these days we will have an answer, but do you sense the thing the way I do at all?

Mr. Lochhead: I will tell you frankly about gold coming in, because we could have a sharp turn around any moment. It was only 6 or 8 months ago that they were scared you would not let gold out of the country. That was only 6 or 7 months ago and these things change very quickly and, as you say, you have been watching balances, security transactions. True, a lot of gold is coming in now, is coming in and temporarily held as balances; not really going into your system yet.

Mr. Haas: The Commodity situation has definitely turned around.

HM, Jr.: The Russians, according to Ambassador Davies, who had lunch with me yesterday, said they had a contract with Republic Steel on a quarterly basis, but could be cancelled by Republic Steel at the end of any three months and Republic Steel would be willing to pay \$1.50 a ton damages to let them off. Up to now, Amtorg has always played one against the other in the buyer's market and are quite shocked that anyone did not want their business. Also, under the loan they made with England, the Russians got 10,000,000 pounds and they can't get their orders filled in London. England themselves are supposed to have placed orders for 40,000,000 while the order for two battleships for Russia is pending too. But all of that stuff could go just like that (gesture) if this thing in Spain ceased to be a world conflict and every indication is that it is getting much better. That's the way I feel. Certainly old France -- Blum -- has tided this thing over beautifully. But I still say, if you can find a pattern, O. K.

Mr. Haas: Yes. We should have on our inventories some alternative even though you don't want to use it now.

Mr. Oliphant: I have something I would like to set up to shoot at.

HM, Jr.: O. K.

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Mr. Lochhead: Speaking about gold coming over, mostly Russian, we are bound to see these heavy shipments for the next week. Yesterday there was \$15,000,000 engaged, \$14,100,000 in one lot; the rest was scattered. You are bound to see that until they clean it up.

Mr. McReynolds: Nothing.

HM, Jr.: I walked down with Ihlder to see if he was getting everything he wanted and he said he is.

Mr. McReynolds: Good. I didn't bring in what I intended to. There is a letter from Congressman Kocialkowski. He asked you as a personal favor to him to keep somebody on who was notified he would be terminated in Chicago -- some clerk -- on the 12th of May. Our boys, of course, are reducing those field offices and unless you want

HM, Jr.: No. No.

Mr. McReynolds: especially to do something.

HM, Jr.: It's the old thing like Seed Loan. They had thrown people out twice and finally we had to take a fellow by the seat of his pants and throw him out on the street. If you broke the rules once

Mr. McReynolds: I am writing him that we have to reduce and this fellow has a good record as have the others who are being let out.

Mr. Oliphant: I promised you a card on pending legislation. I find, looking into it, there are over 300 bills authorizing appropriations in excess of \$10,000,000 and over 50 of these authorize appropriations in excess of \$100,000,000. So we are going to have to examine the whole list very carefully and pick out those that have no likelihood of consideration. In the meantime, I have given you a card here showing the status and amount involved in the Housing Bill, Water Conservation Bill, Tenant Farmer Bill, Education Bill, Farm Security Act and Crop Insurance Act, Flood Control and Black Emergency Highway Construction Act and the Sugar Act.

HM, Jr.: Swell! And the amount of money? Oh, grand! This will be very useful.

Mr. Oliphant: We will go through all the bills in excess of \$10,000,000 that have any chance of passing.

oOo-oOo

April 15, 1937

Excerpt from Mr. Magill's memorandum to the Secretary entitled, "Memorandum of the Day's Activities for April 15th":

1. Railroad Retirement Legislation

As I informed you this morning Senator Harrison called me again with respect to his compromise schedule of rates, starting at $5\frac{1}{2}$ percent, and working up to a permanent rate of $7\frac{1}{2}$ percent at the end of twelve years. I informed him in substance that your position was that we would take either of the rates suggested by the actuaries; that the matter was now out of the Treasury; and that if the proposed rates yielded as much as one of the actuaries' proposals we would not oppose the change, although we did not recommend it. The Senator said that this position was entirely satisfactory to him. I later talked with Mr. Doughton and Mr. George Harrison. Mr. Doughton was interested to ascertain whether the railroads had accepted Senator Harrison's proposal. He was evidently satisfied on this point since he asked me to send up Mr. Kent to help him prepare the draft of the bill to be introduced.

Mr. Kent informed me later that Mr. Doughton introduced the bill this afternoon, with the $5\frac{1}{2}$ - $7\frac{1}{2}$ percent schedule. All parties agreed that a provision should be inserted for periodical reports regarding liabilities for railroad retirement allowances, so that the adequacy of the rates could be determined. The parties were further agreeable to retaining the present tax act in effect from January 1, 1937 to the date of approval of the new bill amended to insert the new rates, for the purpose of insuring the constitutionality of the excise tax upon the railroads.

Friday #, M.
April 16th 1937
White House.

By Bell

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TO THE CONGRESS OF THE UNITED STATES:

In my Budget message of January 5, 1937, I said that I would transmit at a later date an estimate of appropriation for work relief for the fiscal year 1938. In connection with the transmission today of this estimate it is desirable to review our present fiscal situation.

Budget estimates of four months ago indicated a net deficit for the current fiscal year (not including debt retirement) of \$2,248,000,000. They also indicated a surplus (not including debt retirement) for the fiscal year 1938 of \$1,537,000,000, exclusive of any provision for a work relief appropriation. On the basis of these estimates, therefore, an appropriation for work relief for the fiscal year 1938 of any sum less than \$1,537,000,000 would have left at the end of that year an excess of receipts over expenditures.

Since January, however, new factors have so altered the fiscal situation as to make it necessary to present revised estimates of receipts and expenditures. There is attached to this message a statement showing the present estimates

of receipts and expenditures for the fiscal years 1937 and 1938 as compared with the estimates of last January.

A glance at this statement will show that the principal factor is the decline in tax receipts below our previous expectations. The analysis of returns received in March 1937 under the new tax law indicates that income taxes will produce \$267,200,000 less than the estimate for the fiscal year 1937.

The receipts for the first nine months of this fiscal year indicate that other revenues will be \$354,500,000 less than the estimate, which is due in large part to the obstruction of collections by numerous lawsuits against the Government.

In view of the reduction in revenue it became apparent that every effort should be made to offset this loss as far as possible by a reduction in expenditures. To this end I have directed the heads of various Government activities to make a careful examination of their expenditure requirements for the last three months of the present fiscal year with a view to making substantial savings by eliminating or deferring all expenditures not absolutely necessary during this period, the money so saved to revert to the Treasury. Information thus far

available indicates that the 1937 expenditures for this year will probably be \$280,000,000 below the estimate of last January.

The amount of the net deficit for the fiscal year 1937 is therefore estimated at \$2,588,252,300, an increase of \$340,123,526 over the January estimate.

For the fiscal year 1938 it is now estimated that receipts will be \$419,400,000 less than was anticipated last January, of which \$410,000,000 represents a reduction in the estimate of income taxes.

Pending the enactment of the 1938 appropriation bills it has been impossible to make any material revision of the estimates of expenditures for that fiscal year, other than for recovery and relief.

The revised estimates of receipts and expenditures for the fiscal year 1938 as here presented indicate an estimated net deficit of \$432,785,000. There is included in the estimates of expenditures the \$1,500,000,000 for work relief hereinafter recommended. I propose to use every means at my command to eliminate this deficit. I expect to accomplish this by

I regard it as extremely important that we should achieve a balance of actual income and expenditure for the fiscal year 1938, and I appeal to you to join me in a determined effort to bring about that result.

And while I recognize many opportunities to improve social and economic conditions through Federal action, I am firmly convinced that the success of our whole program and the permanent security of our people demand that we adjust all expenditures within the limits of my budget estimate.

taking definite action at the beginning of the next fiscal year to withhold from appropriation for expenditure in so far as possible with due regard to proper functioning of the executive departments and agencies a substantial percentage of the funds *and further more I propose to decrease the deficit by* available for that year *and to increase the receipts of the Treasury through the liquidation of assets of certain of the emergency agencies.*

I am determined to balance the Budget in 1938.

What I have said is predicated on two highly important conditions. The first is the extension of existing taxes which expire this year. The second is the maintenance of appropriations made at this session within the total of the Budget estimates. Any substantial increase in appropriations would of course nullify *our* efforts to prevent a deficit in 1938.

And, while I recognize the desirability of improving many social and economic conditions, I trust that new programs, if adopted *and means to adjust the new programs within* by the Congress, will call for a minimum of additional expenditures.

I wish to emphasize here what I said last January with respect to our future fiscal policy:

"Expenditures must be planned with a view to the national needs; and no expansion of Government activities should be authorized unless the necessity for such expansion has been definitely determined and funds are available to defray the cost. In other words, if new legislation imposes any substantial increase in expenditures either in the expansion of existing or the creation of new activities, it becomes a matter of sound policy simultaneously to provide new revenue sufficient to meet the additional cost."

Bills being pressed for enactment during the present Congress would commit the Government to early expenditures of more than \$5,000,000,000. About \$3,000,000,000 of these authorizations are for the construction of additional public works, even though there are existing authorizations of almost \$2,000,000,000 for this purpose. In the Budget for the past three years I have set up a program for general public works and have announced that I propose to keep such a program within the limit of \$500,000,000 a year. An annual program of this size should meet normal needs for highway, flood control, rivers and harbors, reclamation, Federal buildings, and other public works.

I recognize the need for flood prevention and control but it should be realized that to finance such large immediate expenditures as are contemplated by the majority of the

flood central bills now pending in Congress would impose an unjustifiable burden upon the Federal Treasury.

Bills involving additional authorizations of more than \$500,000,000 for highways have been introduced despite the fact that expenditures for this purpose during the last four years have exceeded one billion dollars and that there are existing authorizations for expenditures during the next two years of nearly \$450,000,000.

The maintenance of a sound fiscal policy requires the careful planning of authorizations as well as appropriations. It is impossible to maintain the proper balance between revenue and expenditures unless restraint is exercised with respect to authorizations of appropriations. It is a matter of concern to all of us who are working for a balanced budget that organizations, associations, and other groups exert the strongest pressure to bring about increases in Government expenditures. These pressure groups pay little attention to the fact that the budget, as submitted, represents a coordinated fiscal program and that material departures therefrom destroy the whole purpose

of the program. If we are to avoid a continuation of deficits, we must resist these impertunities or provide the necessary revenues to meet the increasing costs.

It has become apparent that there is an immediate need for a careful survey of the present tax structure. The Treasury will be prepared by November, next, to present to the appropriate committees of Congress information as to such loopholes as may exist in the present revenue laws, and suggestions for such new or additional taxes as may be necessary to meet deficiencies in the revenue-producing power of the present levies. This will permit these committees to study such information and suggestions for the purpose of proposing early in the next session of Congress legislation necessary to remedy defects in the present tax laws.

I now come to the subject of relief of the unemployed for the fiscal year 1938. In approaching this subject once more it is clear that it still remains a problem and will remain a problem of the national Government for many years to come. ✓

Many intelligent persons approach it with insufficient knowledge and with the primary consideration of dollars and cents. Their attitude, in effect, is that the States and counties and municipalities should reassume the whole burden as was the case prior to 1933. The simple answer is that the great majority of States, counties and municipalities cannot assume the whole burden and remain solvent. This school of thought then proceeds to the hypothesis that the Federal Government should cut its relief appropriations to whatever sum is necessary to balance the Federal budget. When it is pointed out to them that such a sum would be wholly insufficient to give work to those unemployed who can work, they fall back on the suggestion that the Government give them home relief only or in other words a dole without work.

I continue my oft expressed opposition to a dole. These same gentlemen to bolster their argument then tell us that the work performed by those on work relief projects is less efficient than if the same work were carried on by a private contractor. That is to a certain extent true, but to a less degree than they suppose.

Let me give a simple illustration. If a needy unemployed man on the dole is paid twenty dollars a month to keep soul and body together, you have the cheapest form of relief. If he is paid forty dollars in the course of a month for actual work performed, it is possible that because he is unskilled or because he is old, he does not perform so efficiently as a contractor's man. Even if he is only seventy-five percent as efficient as a contractor's man, the government still saves money by paying him the extra twenty dollars to work instead of sitting idly at home.

Therefore, I strongly recommend that work continue to be provided for the unemployed just as far as the Federal Government can properly provide it.

During the past year a continuing check up has been made for the purpose of eliminating from the relief rolls those who should not be given work relief. Furthermore, there has been large reemployment by private industry. The result is that today only 2,200,000 unemployed are at work on Federal projects as against 3,500,000 last year.

Definite progress is being made in making it possible for persons performing relief work to take private employment and if

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this private employment ends to return to the relief rolls without an unseemly delay.

The character of work performed has also improved in quality and usefulness.

It is idle to say that no more useful work can be found. Many projects in cities, villages, and country districts, calling for a maximum of labor and a minimum of materials still exist. It is my thought that as we develop maximum planning for the preservation of our natural resources more and more useful work of such kind can be made available to relief workers. As a corollary to this it seems wise, at this time, to spend less money on permanent structures which require a large amount of heavy material and a small amount of labor on the site.

I should like to make two appeals. The first is to those citizens in every part of the country who complain of the conduct of work relief or the projects undertaken to bring to the attention of the government any and all specific cases of which they have knowledge. To assist in this, I am causing to be published as widely as possible, the name of the principal relief agent in every state, county and municipality. Every complaint will be investigated and

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if the complainant is not satisfied, appeal can be taken directly to Washington. If any citizen knows of any person or group of persons who do not deserve to be on the relief rolls, let him or her speak up. If any person knows of any individual on the relief rolls who declines to take a job in private employment, let him or her speak up. This does not include, however, the many cases where private employers have offered to give jobs to relief workers at starvation wages. No relief worker should be compelled to take starvation wages in private employ.

My other appeal is to the other employers throughout the Nation. On them will rest the final figures of necessary relief expenditures for the fiscal year 1938. It should be pointed out to them that a very large proportion of those now on the relief rolls are unskilled workers or men and women above the age of forty and not yet eligible for old age pensions. If every employer in the United States, large and small, could give jobs to these fellow-citizens who are now doing relief work, our problem in the national legislature and in the Administration would be greatly simplified. Even if such employment is given for only a few months -- even if it reports only a small proportion of these now employed by private

industry, it would greatly help. There are today in the United States approximately forty million people who work for wages. If the employers of the United States would, during the coming year, take on two million or even one million of those now on the relief work rolls, they would be doing more than helping their government -- they would be helping humanity as well.

I recommend an appropriation of \$1,500,000,000 for this purpose to cover the fiscal year 1936. I trust that this appropriation can be made available early in June so that proper planning can be undertaken for its expenditure after July first.

April 16, 1937

This is the Hopkins draft of the Relief Message which we are working on now.

WORKS PROGRESS ADMINISTRATION
 Walker-Johnson Building
 1734 New York Avenue, N. W.
 Washington, D.C.

Leape

HARRY L. HOPKINS
 Administrator

April 10, 1937

The President
 The White House
 Washington, D. C.

Dear Mr. President:

Here is the proposed message on relief. It seems to me it is important in this message that you give a fairly comprehensive review of the need for an integrated security program. This message is written with that in mind.

I have put a sentence in this message which would indicate the possibility of our building small detached and cheap houses for the very poor. You will find this on page eight. I want to urge that this be included because I am convinced we can get all the money for materials from public authorities and our only cost would be for labor. We could build these houses using only those materials in which the production is now very low and the price not excessive. In the main, the materials which we need are all locally produced. In other words, I think it would be to your advantage to have the power in this bill, over and above the Wagner Act which in the main should be used in the big cities for housing.

As you know, I am leaving tonight and will be away for ten days. Mr. Williams will be available for any conferences you may desire relative to this message.

Very sincerely,

Administrator.

HOPKINS: G:EMS

Original of 7/12/37 on April 14/37

During the past four years the efforts of the Federal Government have been devoted in large measure to the immediate problems of recovery and relief. The advances made on these lines are familiar to all of you. Recovery in business has been substantial, and our policies have resulted in a return to a more normal condition of economic activity. Our endeavors in the field of relief have prevented acute physical suffering on the part of a large segment of the American people. We have faced these two major problems and we acted in a forthright manner in dealing with them. Our efforts have met with success.

It is not enough, however, merely to direct governmental policy towards the revival of business activity and the relief of destitution on an emergency basis. The time has come for our policies to be directed towards the future solution of our basic problems in order that this nation shall not again suffer the losses and hardships of the period 1930-1933.

Two problems which have confronted this nation and which continue to be of pressing importance are the economic instability of the nation and the economic insecurity of the individual. Many of our measures in recent years have been designed to reduce the instability in our economic life. I refer to our agricultural program.

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our banking reform, the insurance of bank deposits, and other similar measures. We must consolidate and strengthen these measures and develop future policies to the end that economic stability will be more nearly realized in the future than it has been in the past.

Our second major problem is the economic insecurity of the individual. The worst phases of insecurity have been evident to all of you during the depression years. Depressions, however, merely aggravate a problem of insecurity that faces a large part of our population at all times. We must direct our efforts to achieve for this part of the American people a greater measure and a greater assurance of permanent economic security. It is true that we have taken steps in the direction of a lasting program. The Social Security Act of 1935 was a major advance in progressive government in the United States. This Act cannot stand alone, however.

There are many groups whose hardships are not mitigated by the Social Security program. We must recognize this fact. Permanent provision must be made for those groups who do not come under the existing long-term measures. I am convinced that the time is at hand when we must devise adequate machinery of government and enlightened social policies to meet the needs of the unemployed, the rural groups, and others not benefited by the social security act.

This permanent program must be a Federally administered program.

These twin problems of the economic insecurity of the individual and the economic instability of the nation are closely related. A substantial part of the insecurity in American life is due to the instability in employment and trade in this country. Our existing measures designed to reduce unemployment and the additional means which may be adopted for this purpose will tend to reduce economic insecurity. On the other hand, the enlightened and adequate provision for the security of the American people will tend, in turn, to achieve greater stability in production and profits for our business enterprises. The maintenance of a large and adequate consumers' purchasing power is one of the basic requisites for this economic stability. A comprehensive system of social security by providing income to otherwise destitute groups will contribute to stability and good business.

It is of vital importance that this relationship between economic instability of the nation and economic insecurity of the individual be borne in mind. We must plan our permanent works program in order that both these major social objectives, stability and security, be achieved. We must act now not only for the present but for future years and future generations of Americans.

In line with the responsibility which rests with me and my office as President, I want to present to you my recommendations

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concerning the future policies and the permanent governmental reorganization required to deal with the problem of economic in security.

The major part of the problem has to do with unemployment. The measures needed to deal with the unemployed include unemployment insurance, an employment program to provide work and training, and the strengthening of the public employment offices.

Unemployment insurance programs established by the States under the Social Security Act are the first line of defense for the unemployed. Of necessity, however, this insurance will not care for a large number of the destitute unemployed. As a complement to the social insurance program the Federal Government must devise a long-term Federal Work program to care for these unemployed.

It is my firm conviction that the American people want this permanent program to be based on the principle that work must be given to these unemployed men and women. We must put into practice what has been assumed to be a fundamental American principle that the right to work is the birthright of every citizen. Social recognition of the right to a job must be a basic principle of democratic society. You and I know, however, that industry has left a large group of American labor stranded without the opportunity to work. Millions of our citizens have been out of work through no fault of their own, and millions still are without work in private industry.

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I have said before, and I emphasize again, that if industry cannot provide these millions with employment the Federal Government, in cooperation with State and local governments, will give them work. This is the American way of meeting a problem which, unless met, might some day threaten the foundation of this democratic society. Providing public employment to these deprived of private work is a benefit to the community in which we live, to business and industry, and to those who obtain the work.

Federal responsibility for undertaking to provide work for the unemployed is rooted in the economic origins of the unemployment problem. The causes and underlying conditions of mass unemployment are national in scope. Unemployment in any one community may be due to conditions existing in the markets throughout the country or in another part of the world. These economic bases of Federal responsibility are evident to anyone who has carefully considered the nature, structure, and functioning of our economic processes. For this reason it is possible to meet the hardships arising from unemployment only through the vigorous exercise of the powers of Federal Government.

Federal responsibility is also essential for financial reasons. It has been conclusively demonstrated that local governments cannot bear the entire burden of adequate relief to the unemployed. In recent years local governments courageously attempted to care for

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their unemployed citizens, but, as you all know, the task was soon found to be beyond their power. Even with Federal assistance, local governments are now spending many times the amount spent for relief purposes prior to the depression. Furthermore, local and State governments are being called upon to support certain classes of destitute persons under the Social Security Act which reduces their ability to care for all the unemployed. The States and localities also provide aid to many unemployed through direct relief.

Moreover, it is not just or fair that local governments should be called upon to carry the entire unemployment burden alone. Local taxes are borne by small property owners, small salaried groups, and wage earners. The burden on these groups is already large, and, with justice, they cannot be asked to shoulder that which properly rests with the nation at large.

As another basic principle in my recommended permanent program, I believe that the American people want the unemployed kept in the stream of regular employment opportunities. An effective public employment service must be an integral part of the program. The program must not lead the unemployed away from the opportunities of regular employment and into a state of permanent dependency. The work opportunities that the employment program should afford

must maintain the efficiency and work habits of the workers and prepare workers so that they will be able to enter regular employment at the earliest moment.

To all those project workers who return to private employment, I believe that Congress should provide means for a speedy restoration to the works program jobs when these workers lose their private employment through no fault of their own. In the past some workers on the programs were loath to accept private employment which might last for only a short time because they had no assurance of returning to the program. I believe such assurance would facilitate the transfer and remove the possible penalties attached to the shift to short term private employment.

I also recommend that the permanent works program be improved in another respect over the present program. I refer to compensation for injury and death. The present compensation system provides for a maximum payment of \$25 a month and \$3,500 for permanent disability and death. This is a wholly inadequate compensation, a fact which prompted the United States Employees Compensation Commission to recommend liberalization to the Congress. Liberalization of the present compensation provision would be entirely in the public interest and would involve a negligible increase in costs.

The types of work to be performed under this employment program must, of course, be designed to fit the capabilities of the

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unemployed and, at the same time, to provide socially useful projects. Several major types of work can be pointed out at this time which meet these requirements. I believe that several hundred thousand men can be used to carry out an extensive program of municipal improvements which could include construction and repair of streets; the extension and modernization of water and sewer systems; and the further development of recreational facilities, such as parks, playgrounds, and swimming pools.

There are extensive opportunities for useful employment in connection with a slum clearance program to remove blighted areas in our American cities and to bring decent living conditions to great numbers of underprivileged families. A substantial contribution might well be made to the construction of small homes, designed to give decent living accommodations to the families who are now living in houses which do not measure up to what we accept as an adequate American standard.

Another type of work that I should like to see performed is the construction of rural schools and of small public hospitals in the many communities in this country where such facilities are not available at this time. The benefits to the American people in terms of improved health and higher standards of education are obvious.

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In both urban and rural areas large numbers of men can be profitably employed on projects designed to increase the safety and convenience of air travel.

The building of farm-to-market roads should be an important part of the general plan, as should measures for flood control and flood protection, for water conservation and for the control and prevention of soil erosion.

Also I would emphasize the necessity for employment for men and women in the non-construction field who comprise more than one fifth of the persons now being cared for on the Works Program. This includes workers in the arts as well as workers in the professional, clerical, educational, and recreational categories.

And it is also essential to carry on, as part of the program, extensive research into relief, unemployment, and related economic and social problems in order to guide public policy.

To fulfill its proper purpose the projects undertaken by the employment program must have unquestioned integrity. By this, I mean projects must be worthwhile and well done. The social and economic value of the types of projects outlined above are evident to all of us, but their integrity is largely a matter of having sufficient funds. It is thus essential to assure the States and communities participating in the employment program of the continuance of Federal funds. The assurance of Federal funds permits

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long-range planning on the part of the various governments engaged in the work and makes possible more substantial financial arrangements on the part of the States and local governments. In the past our work relief programs have been definitely handicapped by the absence of this assurance. Planning has been difficult, and States and cities have hesitated to provide funds for projects when there was no assurance of continued Federal support. Assurance of Federal funds will draw out larger amounts of State and local funds for materials and equipment and will permit long-range planning and careful selection of projects.

This planning is essential in view of the probable continuance of unemployment for a long time in the future. I am aware of the fact that many people will not agree that unemployment is a lasting problem. But the lessons of history and an analysis of our industrial system show that unemployment has been and will continue to be a vexing social problem. The causes of the permanent unemployment problem are many. We are all familiar with the recurrence of depression periods, with their high levels of unemployment and poverty. Accordingly, we must establish policies and organizations to deal promptly with unemployment in future years.

There is also the continual displacement of workers by technological improvements. It is said that technological unemployment over a long period of time does not exist. That, however, is small

comfort to the displaced wage earner who, while temporarily displaced, must feed and clothe himself and his family right now. And to enable him to do this is the social responsibility of progressive government.

The difficulties created by depression unemployment and technological displacement are also aggravated by the annual increase of some 500,000 wage earners as a result of growing population.

Industry itself, through many of its policies, directly adds to the group of jobless workers. The high speed of work in many major industries wears the workers out prematurely. High speed industry demands and will accept only younger and stronger men. Consequently, many industries will not employ a man over 40 and will discharge their workers when they reach that age. Under present industrial policies those workers, and the many unemployed above this age, stand little chance of private employment. What shall be done with these workers whom industry discards? The answer is clear: Government must and shall provide them with opportunities for useful work.

This, in broad outline, is the principal problem we must face. The unemployed, however, do not constitute the only group in America in need of a permanent program of public assistance. Other groups remain outside the scope of the present permanent security program. I refer in particular to the large numbers in many rural areas who live in conditions of great poverty. A permanent program is required

to rebuild these areas and restore these people to the standards recognized as part of the heritage of every American citizen.

The special problems of youth require the continued attention and financial assistance of the Government. The very future of our democracy depends on our ability to ensure to the youth of this nation that they will earn their proper places in the community. We must therefore continue the work which we have begun: the task of providing opportunities to youth for education and training in the arts of work and life.

There are, in addition, grave problems of health facing a large part of the people of this country. We have already begun to cope with these problems. Under its relief and work relief programs the Federal Government has aided in disease eradication, immunization, elimination of stream pollution, medical care, and other similar worthwhile activities. To safeguard the nation this work too must go on.

There is, in short, a tremendous social need arising out of the widespread insecurity of the underprivileged American men, women, and children in this country. This need constitutes a challenge to progressive, democratic government. We cannot afford to ignore the necessity for permanent measures to meet this need. This permanent program must be established at the earliest possible moment. I urgently recommend to the Congress that the manifold social

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needs of the unemployed, the destitute rural groups, the youth, the aged, and other groups in want be met through a coordinated program under a new Federal department as recommended to the Congress at an earlier date.

It is essential that the costs of this permanent program be made a part of the regular budget and that the program be established as a regular function of Government. The major part of the program will deal with providing work for those destitute workers unable to obtain private employment. The program must be flexible so as to reflect the changes in private employment. For the coming year it seems probable that approximately 2,000,000 persons should be employed on this works program. While no one knows at the present time the extent of the need a year hence, I am hoping that \$1,500,000,000 will be sufficient. Accordingly, I recommend that Congress appropriate this sum for the works program for the fiscal year 1935. The adequacy of this amount will depend upon the state of private employment and upon the course of prices and living costs during the coming year.

In June 1934 in a message to Congress I said: "Among our objectives I place the security of men, women, and children of the nation first. . ." Part of these objectives have been achieved. It is now time to dedicate ourselves anew to the task of completing this vital work, not only for the present but for the future security of men, women, and children of this nation.

April 16, 1937.
10:50 a.m.

H.M.Jr: Hello

Operator: Vice-President.

H.M.Jr: Hello

O: The Secretary is on.

H.M.Jr: Hello - hello

O: She said she was putting him on.

H.M.Jr: That's all right. (Aside to someone in his office - "The Vice President")

* * * * *

H.M.Jr: George?

Harrison: Hello Henry.

H.M.Jr: How are you?

H: I'm alright, thank you. Ah - I wanted to call you yesterday afternoon before I left but my meeting was so long and then I had to have a four o'clock meeting uptown.

H.M.Jr: I see.

H: So I asked Marriner to tell you what we had done for the day.

H.M.Jr: He did and - ah - he told me about saving the money to use to stiffen up the bill market on Monday.

H: Well I think this - that, if as I expect, we're not going to show any reduction in the account.....

H.M.Jr: Yes.

H:the best thing for us to do would be to make our purchases in bills unless, of course, there should be some further decline in the bond market which makes it necessary for us to operate in bonds too.

H.M.Jr: Yes, well, of course, you got some money from us that you can use in bonds now.

H: Have we? I didn't know that.

H.M.Jr: Well I - we've - we've been trying to sell ten million of these Postal Savings.

H: Oh yes I did know about that.

H.M.Jr: And they sold, I guess, about half of them anyway.

H: Good.

H.M.Jr: And that's to be used for bonds when there's a break, see?

H: Yes.

H.M.Jr: Well I'd like to see.....

H: Well I thought we had an order in for those only on the 2-7/8's.

H.M.Jr: Yes but if you found that the - that was when we put that in because they were the.....

H: Ah-ha.

H.M.Jr:- ah - showed the highest yield.

H: Yes.

H.M.Jr: But I'll tell the boys that if there comes a break and some other bond breaks below why we'd buy that.

H: Oh I see.

H.M.Jr: I was putting it in to buy the one which showed the best yield.

H: Oh I see.

H.M.Jr: See?

H: Alright, well that - that - it'll be better if they just clear that up because I think Madison thinks he's got only one order on that.

H.M.Jr: I'll - I'll - I'll clear it right away. I'll send for Archie.

H: All right.

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H.M.Jr: And - ah -
off

H: Now - ah - the market to-day is/just a little but it's very inactive.

H.M.Jr: Well I like the idea of trying to encourage the bill market a little bit.

H: Well I - I have no real objection to doing that. The only thing I want to avoid, as you do I know, is doing anything that appears to be working anyone of these markets just before an issue.

H.M.Jr: Yes, well we'll talk again Monday?

H: Oh, yes we'll talk before that I hope.

H.M.Jr: All right.

H: (Laughs)

H.M.Jr: Thank you.

H: All right.

MEMORANDUM

April 16, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Treasury bonds eased moderately in the forenoon and quotations were down generally $1/32$ to $8/32$ in the middle of the day, the long bonds being principally affected. Quotations gradually firmed thereafter and at the close the long Treasury bonds were unchanged to slightly better relative to yesterday; the rest of the list was generally $1/32$ to $3/32$ better. Guaranteed bonds also closed slightly higher. The market was quiet all day. Treasury note quotations during most of the day indicated some slight easiness and the list was mixed at the close, scattered issues being $1/32$ better, others $1/32$ off. The new $1\ 1/4$ s were $2/32$ off. Government bond turnover on the Board was about \$1,021,000 vs. \$2,426,000 yesterday.

Both high and second grade domestic bonds were a little easier in the forenoon, firming somewhat toward the latter part of the day, and prices generally closed small fractions up from yesterday. The market was quiet all day.

Foreigns were quiet and steady. Argentine $4\ 1/2$ s were off $1\ 1/4$ points.

Purchased today \$4,250,000 $2\ 7/8\%$ Treasury bonds of 1955-60 for account Postal Savings System.

April 26, 1937

For the Secretary:

Mr. Peyton invited to lunch at the Federal Reserve Bank a number of Minneapolis and St. Paul bankers who are in contact for their banks with the correspondent banks throughout the ninth federal reserve district. Those present were:

R. W. Manuel, president, Marquette National Bank
Wm. H. Johnson, vice president, Northwestern National Bank
C. E. Brombach, assistant cashier, First National Bank
M. O. Grangaard, vice president, First National Bank
A. B. Lathrop, vice president, First National Bank of St. Paul
H. B. Humason, vice president, American National Bank of St. Paul
M. F. Ernst, vice president, Midway National Bank of St. Paul
C. A. Tillander, cashier, Western State Bank of St. Paul
Frank Peck, Farm School, University of Minnesota
Mr. Peyton, Mr. Geery and Mr. Powell from the Reserve Bank.

For nearly two hours this group carried on a round table discussion of some of the things Mr. Peyton and I had indicated an interest in. They all talked to us, to each other, asked and answered questions, and spoke freely though it all.

There was pretty general agreement on most things. They feel that banks have been holding too many government securities, that they should be distributed among individual and institutional investors, that such investors will not absorb them until they reach about a three per cent yield, and that they will gradually go to that yield if left alone as they should be. The jittery period among bankers of the ninth district was when bonds were selling

at their highs, most of them sure that a break would come and wondering when it would arrive. Bankers were of two kinds for the most part --- those who held Governments for appreciation and profit, and those who hold them as an investment and for interest return. Some of the former sold or tried to sell at the top, but those who did not as well as those of the investment-minded type are not disturbed over present prices and think on the whole the slide-off a good thing. They are of the opinion that the bond market should be allowed to seek its natural level, without an attempt by the Treasury or the Federal Reserve to keep it bouyed up. One of the group, Mr. Grangaard was inclined to feel that not only the bankers but the depositors are still fairly upset over bond prices. One of their depositors came in to his bank, which carries sixty million of Governments against 150 million deposits, and asked them if they could stand the loss of three million which they had taken on their Government portfolio. Apparently this big depositor had applied the market drop to their total holdings. They explained that their loss was very much less than this and had been written off in advance anyway --- but he was disturbed over the fact that this depositor and perhaps others were watching bank conditions pretty closely. Mr. Grangaard is of the opinion that it is not at all impossible for another wave of bank distrust (and Government distrust) to lead to a very severe bank failure trouble. One or two of the bankers present spoke fairly strongly about the high bond prices having been due to "rigging" by the Treasury, and expressed the view that the Treasury should not have money for investment in bonds. That is one reason they would like to see postal savings let taper off, so that that fund would not be available for Treasury use in the market. On the whole though, they spoke with approval of the way in which the Treasury has handled the job of financing.

They are all hopeful so far as conditions in the Northwest are concerned. While they admit freely that their people would have been in wretched circumstances had it not been for the Federal funds spent there, they are equally convinced that spending can now be stopped. Bank deposits have grown and saving has increased largely out of Government funds. But they are all convinced that the time has come when the Federal budget (and State, too) must be balanced, and relief and farmer benefits slowed down. If they can get a crop this year, all will be well. A good crop, even at lower prices, means business for everyone, carriers, distributors, etc., as well as producers. And the farmers feel better about a good crop at low prices than they do a curtailed crop at high prices or compensated prices. There is the customary talk about the inactivity of the WPA workers, the useless projects, the difficulty of getting relief people to take jobs, ^{refusal} ~~want~~ by relief clients of formerly-welcomed old clothes because "they don't wear anything any more but new clothes the WPA buys for them", etc. Even those who agree generally with New Deal objectives are pretty much disgusted with relief, and think it can and must end. (In one or two of the small towns I visited yesterday no one was on relief and no one had been on relief).

No one can find a good word to say about the Supreme Court plan. That makes them all see red. And more than one person told me that many who had come to think more of Roosevelt had been completely estranged by that. Some feel that if there has been any reflection of a decreased confidence in the President evidenced in the market for Government bonds, that it has resulted partly from his Supreme Court proposal. They feel that without retrenchment and economy he certainly cannot win his way back, and may not be able to anyway.

The feeling was general that the Government is in business in competition with banks, especially small country banks. Some of them feel this competition,

some do not. The things most often complained of are production credit associations and postal savings. Frank Peck said that the production credit people are going from door to door soliciting business in a very aggressive way, trying to take business away from banks that now have it, and that this system, adopted from the Federal Housing Administration type of propoganda and business building cannot be met by small country banks without staffs.

The situation in the state looks large politically, and there is frequent reference to the "unholy alliance" between Roosevelt and the Olsen-Benson crowd. While the general feeling is that Olson was a rascal, they feel also that he was capable, while Benson is given no credit for having any ability at all. Frank Peck said that the farm leadership in the Northwest is pretty bad, and he remarked that statements such as that made by Secretary Wallace after the Wagner Labor decision are very short-sighted and play right into the hands of the worst type of farm leader--- the organized heads of farmers. He apparently feels that many of Wallace's statements are ill advised, but his talk about the Wagner decision leaving the farmer the only unprotected class and the one that would have to take action to help itself from being in position where it had to support both capital and labor Mr. Peck regards as only adding to the difficulties stirred up by farm leaders in the Northwest. He added that he thinks too, bad the reaction of the farmers to the Soil Conservation program. Their reaction is almost wholly monetary and their actions very carefully calculated to yield them the greatest monetary return. If they get more or stand a fair chance to get more by going along with the program, they do so.

Scarcely a single one of the bankers knows or cares anything about gold, except to wonder what will happen if we get it all. They do not feel close enough to the situation to know what to do to stop it, or what

the effect of a lower price for gold would be. They rely on the Treasury and Federal Reserve "experts" to take care of that for them.

There is a universal feeling that while taxes may not be too high, the undistributed earnings tax operates to the disadvantage of small corporations, and to corporations in debt.

There is great interest in the Patman proposal for buying the reserve banks, and pretty general alarm if that is to happen, although an occasional banker seems to regard it with favor.

In the morning I had some time with Dick Lillie, president of the First National Bank of St. Paul, and regarded around here as the most capable banker in the Northwest, probably. He is very calm about things, has every faith in the Government, relies on it, and makes money out of it. His bank went in heavily for loans on adjusted service certificates, and made money, they are operating a Federal Housing Administration loan business of their own, not in conjunction with FHA at all, and making money out of that on a nationwide scale as they did in veterans' loans, and recently that have started a nationwide system of installment finance business through GMAC and others like that. They have Government bonds and are not worried about them, think interest yields will inevitably stiffen no matter what the Treasury and Federal Reserve do. Lillie was always close to Governor Olson and has an alliance with the Farm Labor people, but can't stomach Jensen. Lillie thinks the importance of balancing the budget NOW cannot be overemphasized. It shouldn't be approached from the standpoint of seeing just how far we can go without a break, but how soon we can get back to a debt reducing position.

I heard several of the bankers who were present at the luncheon tell Mr. Peyton that they had not had so interesting and valuable a session for a long time. They were most appreciative, he said, of the interest taken by the Secretary in their attitudes and ideas. Mr. Peyton himself said my visit and that luncheon did incalculable good to the Treasury and to the Federal Reserve as well. He was extremely pleased, and said whether or not the bankers ideas were of any use to us, we had derived benefit just from asking for them.

Upm

April 16, 1937

H.M.Jr. told the following to Mr. Haas and said it was very stupid.

The only suggestion is the possibility of putting the producers of gold on a quota basis. If we can take the big producers of gold and figure out how many ounces are produced (1 billion divided by 35) each country will have to take care of so much and we will only buy so much. Go at it the way we did with silver.

If you said the monetary stocks of gold are 20 billion dollars and we will permit it to increase (take the average for 10 years and that is 500 million) then base a quota for each country on something like that so that we will stop increased mining.

April 16, 1937

Mr. McReynolds

Mr. McGill

In line with our conference this morning, I think you and I ought to consider what machinery should be set up to supervise and check the character of the Internal Revenue personnel both in the field and in Washington. I keep hearing reports of the stupidity of Internal Revenue Agents, together with occasional reports of crookedness. It is quite possible that in the course of the twenty-five years during which the Bureau has been built up, that we have accumulated a good deal of deadwood; that men are trying to do work for which they are not really fitted; and that there is an excess of personnel in some units which could be employed to much greater advantage in other work. Moreover, I do not believe that our present standards for testing the efficiency of Internal Revenue Agents are at all satisfactory, since they are largely based, as I understand it, upon the agents' paper records in producing recommendations of deficiencies. Needless to say, many of these recommendations are not sustained in later proceedings, with resulting expense to the Bureau and to the taxpayer that is largely unjustified.

If we are going to decentralize the administration of the Bureau, it becomes more important than ever that the personnel in the field should be checked over. Otherwise, we are going to lose a good deal of money by decentralization. Hence, it seems to me essential that we should have a new division to supervise the work of the decentralized offices, as we have already agreed. In addition thereto, I think we could greatly improve the present situation if we could find a man of the character of Mr. Graves to keep in active touch with the whole field personnel. I wish you would give your best thought to the solution of these various problems. Needless to say, if you and I agree upon a solution we must take it up with Mr. Helvering.

BILLS AUTHORIZING APPROPRIATIONS IN
EXCESS OF TEN MILLION DOLLARS

- S. 1685 -- Wagner Housing Bill--To provide financial assistance to the
H. R. 5033 States and political subdivisions thereof for the elimination
of unsafe and insanitary housing conditions, for the provision
of decent, safe, and sanitary dwellings for families of
low income, and for the reduction of unemployment and the
stimulation of business activity, to create a United States
Housing Authority, and for other purposes.
- S. 596 -- To aid in the rehabilitation of tenant farmers and sharecroppers,
to provide credit facilities for the acquisition of farms
and farm homes, to provide loans to farmers for crop production
and harvesting, and for other purposes.
- S. 419 -- To promote the general welfare through the appropriation of
funds to assist the States and Territories in providing more
effective programs of public education.
- S. 1930 -- To provide for a useful and comprehensive system for the im-
pounding, storing, conserving, and making use of the unappropriated
waters falling or emanating within the United States
and for other purposes.
- H. R. 6240 -- Farm Security Act of 1937--To encourage and promote the owner-
ship of farm homes and to make the possession of such homes
more secure, to provide for the general welfare of the United
States, to provide additional credit facilities for agricultural
development, and for other purposes.
- S. 1397 -- Creating a Federal Crop Insurance Corporation to insure wheat
producers against losses due to drought, flood, hail, wind,
insects, etc.
- S. 1440 -- The Flood Control Authorities Act of 1937--To provide for the
H. R. 4603 control of flood waters of the rivers of the United States, for
the improvement of navigability of such rivers, and for reforestation
and conservation of national resources.
- S. 1771 -- To furnish employment by providing for emergency construction
H. R. 5371 of public highways and related projects.
- H. R. 5360 -- The Educational Equalization Act--To promote the general welfare
by means of financial assistance to the several States
and Territories for the purpose of enabling them to provide
more equal and more adequate opportunities for public education.

-2-

S. 1757 -- The Sugar Act of 1937--To regulate commerce among the several States, with the Territories and possessions of the United States and with foreign countries; to protect the welfare of consumers of sugars and of those engaged in the domestic sugar-producing industry; to promote the export trade of the United States; and to raise revenue.

H. R. 5326

Treasury Department
Office of the Under Secretary 102

4/16/37

To: Miss Chauncey

From: C.G. Humphries

Prepare answer
for Mr. Magill's signature

Prepare memorandum for

Reply direct

For your information

Memo: Here is the new bill introduced by
Mr. Doughton 4/15 —

Please phone me when you are free.
I have a message for the Secretary,
from Mr. Ireby.

75TH CONGRESS
1ST SESSION

H. R. 6448

IN THE HOUSE OF REPRESENTATIVES

APRIL 15, 1937

Mr. DOUGHTON introduced the following bill; which was referred to the Committee on Ways and Means and ordered to be printed

A BILL

To levy an excise tax upon carriers and certain other employers and an income tax upon their employees, and for other purposes.

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

DEFINITIONS

4 SECTION 1. That as used in this Act—

5 (a) The term "employer" means any express company,
6 sleeping-car company, or carrier by railroad, subject to part I
7 of the Interstate Commerce Act, and any company which
8 may be directly or indirectly owned or controlled thereby
9 or under common control therewith, and which operates any
10 equipment or facilities or performs any service (other than

1 trucking service) in connection with the transportation of
 2 passengers or property by railroad, or the receipt, delivery,
 3 elevation, transfer in transit, refrigeration or icing, storage,
 4 or handling of property transported by railroad, and any
 5 receiver, trustee, or other individual or body, judicial or
 6 otherwise, when in the possession of the property or operat-
 7 ing all or any part of the business of any such "employer":
 8 *Provided, however,* That the term "employer" shall not
 9 include any street, interurban, or suburban electric railway
 10 unless such railway is operating as a part of a general
 11 steam-railroad system of transportation, but shall not exclude
 12 any part of the general steam-railroad system of transporta-
 13 tion now or hereafter operated by any other motive power.
 14 The Interstate Commerce Commission is hereby authorized
 15 and directed upon request of the Commissioner of Internal
 16 Revenue, or upon complaint of any party interested, to deter-
 17 mine after hearing whether any line operated by electric
 18 power falls within the terms of this proviso. The term
 19 "employer" shall also include railroad associations, traffic
 20 associations, tariff bureaus, demurrage bureaus, weighing and
 21 inspection bureaus, collection agencies, and other associa-
 22 tions, bureaus, agencies, or organizations controlled and main-
 23 tained wholly or principally by two or more employers as
 24 hereinbefore defined and engaged in the performance of serv-
 25 ices in connection with or incidental to railroad transportation;

1 and railway labor organizations of employees, national in
 2 scope, which have been or may be organized in accordance
 3 with the provisions of the Railway Labor Act, as amended,
 4 including their State and national legislative and general
 5 committees.

6 (b) The term "employee" means any person in the
 7 service of one or more employers for compensation.

8 (c) The term "employee representative" means any
 9 officer or official representative of an organization of em-
 10 ployees other than a labor organization included in the term
 11 "employer" as defined in section 1 (a), who before or after
 12 the enactment hereof was in the service of an employer as
 13 defined in section 1 (a) and who is duly authorized and
 14 designated to represent employees in accordance with the
 15 Railway Labor Act, as amended, and any person who is
 16 regularly assigned to or regularly employed by such officer
 17 or official representative in connection with the duties of his
 18 office.

19 (d) A person is in the service of an employer wherever
 20 his service is rendered if he is subject to the continuing au-
 21 thority of the employer to supervise and direct the manner
 22 of rendition of his service, which service he renders for com-
 23 pensation: *Provided, however,* That a person shall be deemed
 24 to be in the service of an employer not conducting the prin-
 25 cipal part of its business in the United States, Alaska,

1 Hawaii, or the District of Columbia only when he is rendering
2 service to it in the United States, Alaska, Hawaii, or the
3 District of Columbia.

4 (e) The term "compensation" means any form of money
5 remuneration earned by a person for services rendered as an
6 employee to one or more employees, including wages paid
7 for time lost as an employee, but wages paid for time lost
8 shall be deemed earned in the month in which such time is
9 lost. Compensation which is earned during the period for
10 which the Commissioner of Internal Revenue shall require a
11 return of taxes hereunder to be made and which is payable
12 during the calendar month following such period shall be
13 deemed to have been paid during such period only.

14 INCOME TAX ON EMPLOYEES

15 SEC. 2. (a) In addition to other taxes, there shall be
16 levied, collected, and paid upon the income of every em-
17 ployee a tax equal to the following percentages of the com-
18 pensation of such employee not in excess of \$300 per month,
19 earned by him after December 31, 1936—

20 1. With respect to compensation earned during the cal-
21 endar years 1937, 1938, and 1939, the rate shall be 2½ per
22 centum;

23 2. With respect to compensation earned during the cal-
24 endar years 1940, 1941, and 1942, the rate shall be 3 per
25 centum;

1 3. With respect to compensation earned during the cal-
2 endar years 1943, 1944, and 1945, the rate shall be 3½ per
3 centum;

4 4. With respect to compensation earned during the
5 calendar years 1946, 1947, and 1948, the rate shall be 3½
6 per centum;

7 5. With respect to compensation earned after December
8 31, 1948, the rate shall be 3½ per centum;

9 (b) The tax imposed by this section shall be collected
10 by the employer of the taxpayer by deducting the amount
11 of the tax from the compensation of the employee as and
12 when paid. Every employer required so to deduct the tax
13 is hereby made liable for the payment of such tax and shall
14 not be liable to any person for the amount of any such
15 payment.

16 (c) If more or less than the correct amount of tax im-
17 posed by this section is paid with respect to any compensa-
18 tion payment, then, under regulations made under this Act
19 by the Commissioner of Internal Revenue, with the approval
20 of the Secretary of the Treasury, proper adjustments, with
21 respect both to the tax and the amount to be deducted, shall
22 be made, without interest, in connection with subsequent
23 compensation payments to the same employee by the same
24 employer.

EXCISE TAX ON EMPLOYERS

1 SEC. 3. (a) In addition to other taxes, every employer
2 shall pay an excise tax, with respect to having individuals
3 in his employ, equal to the following percentages of the com-
4 pensation not in excess of \$300 per month paid by him to
5 any employee for services rendered to him after December
6 31, 1936:

7 1. With respect to compensation paid to employees for
8 services rendered during the calendar years 1937, 1938,
9 and 1939, the rate shall be $2\frac{1}{2}$ per centum;

10 2. With respect to compensation paid to employees for
11 services rendered during the calendar years 1940, 1941, and
12 1942, the rate shall be 3 per centum;

13 3. With respect to compensation paid to employees for
14 services rendered during the calendar years 1943, 1944, and
15 1945, the rate shall be $3\frac{1}{4}$ per centum;

16 4. With respect to compensation paid to employees for
17 services rendered during the calendar years 1946, 1947, and
18 1948, the rate shall be $3\frac{1}{2}$ per centum;

19 5. With respect to compensation paid to employees for
20 services rendered after December 31, 1948, the rate shall be
21 $3\frac{1}{4}$ per centum.

22 (b) If more or less than the correct amount of the tax
23 imposed by this section is paid with respect to any compen-
24 sation payment, then, under regulations made by the Com-
25

1 missioner of Internal Revenue, with the approval of the
2 Secretary of the Treasury, proper adjustments with respect
3 to the tax shall be made, without interest, in connection with
4 subsequent excise-tax payments made by the same employer.

REFUNDS AND DEFICIENCIES

5 SEC. 4. If more or less than the correct amount of the
6 tax imposed by section 2 (a) or 3 (a) of this Act is paid
7 or deducted with respect to any compensation payment and
8 the overpayment or underpayment of the tax cannot be
9 adjusted under section 2 (c) or 3 (b), the amount of the
10 overpayment shall be refunded, or the amount of the under-
11 payment shall be collected in such manner and at such times
12 (subject to the statute of limitations properly applicable
13 thereto) as may be prescribed by regulations under this
14 Act as made by the Commissioner of Internal Revenue,
15 with the approval of the Secretary of the Treasury.

INCOME TAX ON EMPLOYEE REPRESENTATIVES

16 SEC. 5. In addition to other taxes, there shall be levied,
17 collected, and paid upon the income of each employee repre-
18 sentative a tax equal to the following percentages of the
19 compensation of such employee representative not in excess
20 of \$300 per month, earned by him after December 31, 1936:

21 1. With respect to compensation earned during the cal-
22 endar years 1937, 1938, and 1939, the rate shall be $5\frac{1}{2}$
23 per centum;
24
25

1 2. With respect to compensation earned during the cal-
2 endar years 1940, 1941, and 1942, the rate shall be 6 per
3 centum;

4 3. With respect to compensation earned during the
5 calendar years 1943, 1944, and 1945, the rate shall be
6 $6\frac{1}{2}$ per centum;

7 4. With respect to compensation earned during the cal-
8 endar years 1946, 1947, and 1948, the rate shall be 7
9 per centum;

10 5. With respect to compensation earned after Decem-
11 ber 31, 1948, the rate shall be $7\frac{1}{2}$ per centum.

12 The compensation of an employee representative for
13 the purpose of ascertaining the tax thereon shall be deter-
14 mined in the same manner and with the same effect as if
15 the employee organization by which such employee repre-
16 sentative is employed were an employer as defined in
17 section 1 (a) of this Act.

18 DEDUCTIBILITY FROM INCOME TAX

19 Sec. 6. For the purposes of the income tax imposed by
20 title I of the Revenue Act of 1934 or by any Act of Con-
21 gress in substitution therefor, the taxes imposed by sections
22 2 and 5 of this Act shall not be allowed as a deduction
23 to the taxpayer in computing his net income.

1 COLLECTION AND PAYMENT OF TAXES

2 SEC. 7. (a) The taxes imposed by this Act shall be
3 collected by the Commissioner of Internal Revenue and
4 shall be paid into the Treasury of the United States as in-
5 ternal-revenue collections.

6 (b) The taxes imposed by this Act shall be collected
7 and paid quarterly or at such other times and in such man-
8 ner and under such conditions not inconsistent with this
9 Act as may be prescribed by the Commissioner of Internal
10 Revenue with the approval of the Secretary of the Treas-
11 ury. If a tax imposed by this Act is not paid when due,
12 there shall be added as part of the tax (except in the case
13 of adjustments made in accordance with the provisions of
14 this Act) interest at the rate of 6 per centum per annum
15 from the date the tax became due until paid.

16 (c) All provisions of law, including penalties, appli-
17 cable with respect to any tax imposed by section 600 or
18 section 800 of the Revenue Act of 1926, and the provisions
19 of section 607 of the Revenue Act of 1934, insofar as ap-
20 plicable and not inconsistent with the provisions of this
21 Act, shall be applicable with respect to the taxes imposed
22 by this Act.

23 (d) In the payment of any tax under this Act, a frac-
24 tional part of a cent shall be disregarded unless it amounts

1 to one-half cent or more, in which case it shall be increased
2 to 1 cent.

3 COURT JURISDICTION

4 SEC. 8. The several district courts of the United States
5 and the District Court of the United States for the District
6 of Columbia, respectively, shall have jurisdiction to entertain
7 an application by the Commissioner of Internal Revenue to
8 compel an employee or other person residing within the juris-
9 diction of the court or an employer subject to service of
10 process within its jurisdiction to comply with any obligations
11 imposed on such employee, other person, or employer under
12 the provisions of this Act. The jurisdiction herein specifi-
13 cally conferred upon such Federal courts shall not be held
14 exclusive of any jurisdiction otherwise possessed by such
15 courts to entertain actions at law or suits in equity in aid of
16 the enforcement of rights or obligations arising under the
17 provisions of this Act.

18 SOCIAL SECURITY ACT

19 SEC. 9. The term "employment", as defined in subsec-
20 tion (b) of section 811 of title VIII of the Social Security
21 Act, shall not include service performed in the employ of an
22 employer as defined in section 1 (a) of this Act or service
23 performed for an organization of employees by an employee
24 representative who is subject to the tax imposed by section 5
25 of this Act.

1 SEPARABILITY

2 SEC. 10. If any provision of this Act, or the application
3 thereof to any person or circumstance, is held invalid, the
4 remainder of the Act, and the application of such provision
5 to other persons or circumstances, shall not be affected
6 thereby.

7 REPEAL OF PRIOR TAX ACT

8 SEC. 11. The provisions of this Act are in substitution
9 for the provisions of the Act of August 29, 1935, entitled
10 "An Act to levy an excise tax upon carriers and an income
11 tax upon their employees, and for other purposes", which
12 is hereby repealed. All moneys payable under the Tax Act
13 which is repealed by this Act and not heretofore paid shall
14 cease to be payable and all proceedings pending for the
15 recovery of any such moneys shall be terminated. All sums
16 paid into the Treasury of the United States as and for taxes
17 under the Tax Act which is repealed by this Act shall be
18 refunded, except eleven-fourteenths of the sums so paid as
19 and for taxes with respect to compensation earned after
20 December 31, 1936, and the sums not required to be re-
21 funded shall be retained in the Treasury of the United States
22 and credited on taxes due and payable under this Act. All
23 sums deducted by employers from the compensation of
24 employees as and for taxes under the Tax Act which is
25 repealed by this Act shall be refunded to such employees.

1 except eleven-fourteenths of the sums so deducted as and
2 for taxes in respect of compensation earned after December
3 31, 1936, and the sums not required to be refunded shall be
4 paid into the Treasury of the United States and thereupon
5 shall be credited on taxes due and payable under this Act.

6 SHORT TITLE

7 SEC. 12. This Act may be cited as the "Carriers Taxing
8 Act of 1937."

75TH CONGRESS }
1ST SESSION

H. R. 6448

A BILL

To levy an excise tax upon carriers and certain other employers and an income tax upon their employees, and for other purposes.

By Mr. DOUGHTON

APRIL 15, 1937

Referred to the Committee on Ways and Means and ordered to be printed

RECEIVED

APR 1 1937

April 16, 1937.
11:34 a. m.

H.M.Jr: Hello.

Operator: Mr. Knoke. Go ahead.

H.M.Jr: Hello Knoke.

L. W.
Knoke: Good morning, Mr. Secretary.

H.M.Jr: How are you?

K: Fine, quite well, thanks.

H.M.Jr: Have you got any ideas on why sterling is going up?

K: Ah - well I have an idea, yes. I mean the - I think technically sterling has been ready to advance for this reason that - ah - I think there are no test balances; nobody has any cash balances.

H.M.Jr: Where?

K: In London.

H.M.Jr: Oh.

K: Ah - the result is a strengthening of the spot rate and weakening of the forward.....

H.M.Jr: Will you hold the wire just a minute?

K: Yes sir.
(Pause)

H.M.Jr: Hello.

K: Yes.

H.M.Jr: Go ahead.

K: Well that is technical - from a technical viewpoint.

H.M.Jr: Yes.

K: Then it seems to me the - ah - the moment repatriation should set in I think sterling is almost bound to go up unless the funds are trying to hold her down.

H.M.Jr: Yes.

K: Now as regards today's strength - ah - the reason may well be this - that the Russians who have been offering their gold on the dollar basis are understood to now be offering it on a sterling basis.

H.M.Jr: I see.

K: And I think that is probably the most direct reason for the present strength.

H.M.Jr: I wish you'd call them up and ask them.

K: Yes, all right, I shall.

H.M.Jr: You know I had a talk with a Russian boy Sunday.

K: Ah - well I - I didn't know that much even.

H.M.Jr: Well I talked to them and said what we wanted was exchange of information.

K: Yes - yes.

H.M.Jr: Now they haven't come through yet.

K: Yes, well it's - it isn't their nature, I'm afraid.

H.M.Jr: Well the Embassy here said they knew nothing about it and I believe them.

K: Yes.

H.M.Jr: And - ah - ah, of course, I suppose it takes time but I simply said I couldn't imagine putting 200 million dollars over here without even knowing what our gold policy was. It seemed unbelievable to me. I told them that before the Japanese sent any gold over here they made an exhaustive study.

K: Yes.

H.M.Jr: And I told them, "We'll do as much for you as we've done for the Japanese along that line, you see?"

K: Yes.

H.M.Jr: Also what it meant and what they were going to do with the money and so forth and so on. They may not tell me but at least I'd put the questions to them anyway.

- 3 -

- K: Well I should ima - as I said before - it seems to me quite likely that they are now offering their ster - their gold on a sterling basis and if for no other reason than to keep part of the proceeds in sterling and part in dollars.
- H.M.Jr: Well if that's so I'd like to know it.
- K: Yes, well I
- H.M.Jr: This is such a strong movement that I'd really like to know a little bit more about it.
- K: I - I put in the call for London already but - ah
- H.M.Jr: Good.
- K: Ah -
- H.M.Jr: Now let me ask you something else.
- K: Yes sir.
- H.M.Jr: If they begin to liquidate some of these war commodities, would that mean that sterling would go up? I mean some of these speculators - if they begin to sell tin or copper or rubber or wheat and so forth and so on.
- K: No, that would mean sterling is going - if they begin liquidating that would mean lower sterling.
- H.M.Jr: Well now why? I don't get that.
- K: Well because they - you are speaking of commodities that have an international market.
- H.M.Jr: They're owned abroad.
- K: Yes. Well that - the tin for instance - the market is undoubtedly London - ah - the
- H.M.Jr: But if they sell their tin they buy sterling.
- K: No - no there's - when they buy tin they buy sterling and that's what they've done in the past. They would give an order to buy tin in the London market and to pay for the tin they had to purchase sterling.

- 4 -

H.M.Jr: No but you take - you say they have no balances - let's say this fellow has forwards in anything.

K: Yes.

H.M.Jr: Now he sells his forwards.

K: Yes.

H.M.Jr: What does he get for it?

K: Well he gets - ah - you mean - pardon me - he sells what sterling?

H.M.Jr: Well let me put it this way.

K: Yes.

H.M.Jr: Now wheat has dropped four cents in Liverpool today.

K: Yes.

H.M.Jr: If commodities would drop

K: Yes.

H.M.Jr: would that mean that - would that be - would sterling go up or go down - that's what I'd like to

K: It would go down for this reason - the fellow who has sold wheat in Liverpool today is getting sterling balances.

H.M.Jr: Yes.

K: Now - ah - ah - he would be likely - assuming that that fellow is sitting here in New York he would be likely to sell his sterling balances especially

H.M.Jr: Well would - are you sure of that?

K: Well you're never quite sure of what a speculator will do but I think it's the logical thing and, if you remember, that all these commodity purchases have always been given for the strength of sterling then it seems to me in selling commodities it must be a reason for weaker sterling.

- H.M.Jr: I see. Well after you've talked to them I'd like to know how they interpret - especially what the Russians are doing
- K: Yes.
- H.M.Jr: and - or anything else. Ah - because my own idea is that what's happening today is that - that - the better news from Spain is the thing that's influencing them. The chances that things are going to be settled in Spain.
- K: Well - ah - that may well be one of the reasons but I still think the gold is the major factor.
- H.M.Jr: Well I don't - I don't agree with you.
- K: (Laughs)
- H.M.Jr: I mean it may be the spot factor but I mean that has nothing to do with wheat going off 4¢ and cotton going off, and all that.
- K: Oh - oh I see. Well - ah - no I was (laughs) - I was not speaking in terms of commodities at all - I was just - ah
- H.M.Jr: No I - no I simply feel the situation has gotten much better abroad and I - I said this morning before the market opened I think you'll see a liquidation of commodities.
- K: Yes. Well it's funny - that wasn't my reaction at all when I read this report about Davis being disappointed because the British don't want to talk trade and trade agreements; they don't want to talk disarmament agreements so then I - I had a somewhat different reaction. I thought well if that's so
- H.M.Jr: Well I'm just giving you mine.
- K: Yes.
- H.M.Jr: I mean - ah - I think the things are getting steadily better and as they do I think you'll see a fall in the price of commodities.

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K: Oh well - there's no - if the situation clears up in Europe I'm sure there's no need for - for peak prices at the present level.

H.M.Jr: Yes.

K: I think they have been boosted for very special reasons.

H.M.Jr: Yes.

K: And that is purchases for - in anticipation of possible difficulties.

H.M.Jr: Well if - if you could do it tactfully ask your English friend if this fall in commodities continues what price - what influence would it have on sterling.

K: Yes.

H.M.Jr: Would you mind asking him that?

K: No, certainly not.

H.M.Jr: What?

K: I'll - I'll certainly ask.

H.M.Jr: Ask him if the situation would improve in Spain and got better and commodities fell off

K: Yes.

H.M.Jr: what influence - what - what does he think - which way would sterling go.

K: I shall.

H.M.Jr: All right, but certainly if - well you remember I called up up just a week ago to tell you up just a week ago today to tell you to quiet down

K: Yes.

H.M.Jr: and certainly in one week it's unbelievable what's happened - I mean how quieter everybody is.

K: Yes.

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H.M.Jr: Don't you feel

K: Yes except there's one thing I can't understand yet and that is the - the price prevailing in London for gold - that is I can quite make it out.

H.M.Jr: No I can't either.

K: On the other hand, when you see shipments - yesterday 14 million dollars; today we have so far been told of five million four hundred

H.M.Jr: Yes.

K: I cannot help but feel that sooner or later that will have its effect upon the other fellows and they'll also step in again.

H.M.Jr: Ah-ha. Well after you've talked I'd like to talk to you.

K: I shall call you.

H.M.Jr: Thank you.

K: Right, sir.

JR

GRAY

Paris

Dated April 16, 1937

Rec'd 1 p.m.

Secretary of State,
Washington.

489. April 16, 4 p.m.

FROM COCHRAN.

Paris exchange market rather slow today. French control yielded some sterling in early trading. Belga continues to display weak tendency. French rentes closed about even but there is still demand international shares. Dollars more offered against sterling on news of American Treasury's borrowing plans. Bank of France, all Paris American banks and most all French banking institutions, will be completely closed on Saturdays beginning tomorrow complying with forty hour week legislation. One Paris Bank, Societe Generale, will have part of its staff on duty and is actively soliciting foreign exchange business of regular clients of other banks.

BULLITT

HPD

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Lohr 112

OFFICE CORRESPONDENCE

DATE April 18, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Knack

WITH BANK OF ENGLAND.

I called Mr. Bolton at 12:04 to discuss market activities. The weakness of the dollar, he thought, originated in New York and was nothing more than an end-of-the-week liquidation of a short position in sterling resulting from the events of last week. It had nothing to do, he felt, with gold purchases in the London market nor with the change in the method applied by the Russians, who are now selling their gold on a sterling basis rather than on a dollar basis (this does not tally at all with the information given me here in New York by one of the leading traders, to the effect that his purchases of sterling were all ordered paid to Russian accounts in London). Bolton's opinion was based on the fact that the Russians never attempted to sell more than 40 or 50 bars a day through the market, which, however, does not eliminate the possibility of selling large blocks through private negotiation. He added that the Russians had approached them and that they were in the course of negotiations with them at the moment but that the Russians were very difficult people to get on with. With reference to yesterday's engagement for shipment to New York of \$14,000,000 worth of gold, Bolton thought that this gold was largely a result of Tuesday's sales of newly mined gold. There was also a fair amount of dishoarding going on although on the decline now, which, during the last week, had brought out something like £5,000,000 to £8,000,000.

I asked Bolton to what he attributed today's drop in commodity prices. He answered that his feeling, based entirely on information received from the general market, was that the drop in

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 16, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Knoke

WITH BANK OF ENGLAND.

- 2 -

prices was due to the liquidation of a speculative position which was very much larger than people had anticipated, not only in the London market but also in Paris and Amsterdam. Last week's shake-up in the gold market had uncovered a lot of margins. He admitted that the general situation in Europe had improved lately but he did not think that this improvement was in any way responsible for today's drop in commodity prices. I then asked what effect he thought lower commodity prices would have on the sterling rate. His first reply was that he would not even like to guess at that because of the many factors entering into that situation; nevertheless I gained the impression that he was inclined to think that lower commodity prices might mean a lower sterling rate.

LWK:KMC

JS

Gray

LONDON

Dated April 16, 1937

Rec'd 4:25 p.m.

Secretary of State,
Washington, D.C.

222, April 16, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

Confidential

At a meeting at the British Treasury today Phillips and Waley referred to the recent recrudescence of uncertainties in the French situation; the flow of funds to France seemed for the moment to have stopped; the loan had not been as successful as the French had anticipated and in fact has necessitated their seizing the "heaven-sent opportunity" to depreciate the franc further so as to force the loan towards par and permit its quotation; French prices continued to rise; and on top of all this Blum seemed to be having trouble with his Cabinet and with the trade unions. The British Treasury's attitude seemed to be one of watchful waiting in the belief that the French had enough funds to tide them over for the next six weeks or so. Phillips said that Spinasse had been in to see him just as he had Mr. Norman Davis; that it was time that the French got out of the frame of mind that with an elaborate system of quotas they could continue to deplore the presence of quotas blaming the exchange control system of others while unwilling to make any real attempt to clarify their own position;

-2-
From London #222,

position furthermore, they had recently added a quota on hosiery which fact certainly did not jibe with their protestations.

Waley said that they had not yet received any information regarding Schacht's visit to Brussels except that which had appeared in the press which seemed as reasonable as Schacht's public statements always were. No doubt M. Frere had participated in the discussions in Brussels and would now begin his tour of the Continent on behalf of Van Zeeland, in exploring the possibilities of attacking the European quotas problem; until he had completed his searchings it was futile to prognosticate.

In referring to Professor Sprague's recent appearance in Europe as contributory to the "gold scare" of last week Phillips said that aside from the fact that it had shaken out a few speculators it would not in his opinion importantly affect the course of price movements unless through repetition the general public should have their confidence in the value of gold impaired. He reiterated in much the same terms the views which he previously expressed (reported in the final paragraph of my 137, March 12, 6 p.m.) that aside from perhaps copper and a few isolated commodities that the prices of raw materials were not the result of abnormal speculative operations at the present time. He was inclined to believe that the turnover in most commodities was small

in

-3-

JR #222, April 16, 7 p.m., from London.

in comparison with the volume and at the same time he emphasized that he would not be surprised to find that it was in those commodities where there was no speculative middleman between the producer and consumer groups that the price movements had been most abrupt.

He also referred to the increased gold production particularly Russia's emergence as a leading producer, the policy of sterilization and the problems of price levels, et cetera, and stated that in general he was "not sure that something could not at some time be done" but that he was "very sure that this was not the time to try to do it". In answer to a query he replied that Great Britain had been "flooded out" with French and other gold. In another conversation Leith-Ross had taken the line that there is not an excess of gold in the world today and that when such countries as France begin to absorb their fair proportion the problem will move towards the background. I did not feel that this view was shared by Philipps, and in conclusion he said that whereas the Chancellor of the Exchequer had not had this general problem under consideration at all he felt he could speak for him to the extent of saying that if we wish to exchange views with the British Government on this general subject they would be glad to do so at any time.

Philipps also referred to the reports of recent

purchase

-4-

JR #222, April 16, 7 p.m., from London,

purchase of American Government securities and inquired whether the administration was determined to preserve current interest levels. In this connection he referred to the recent answer in Parliament, quoted in my 212, April 13, 8 p.m., and said that British Government securities had for the time being settled down at around $3\frac{1}{2}$ per cent; that whereas complete confidence had not yet returned to the Government bond market things were better than a few weeks ago. Philipps also referred to the recent announcement of borrowings and asked if it were known the amount of new money which the administration intended to raise during the remainder of the year.

Exchanges were relatively inactive until New York opened and the dollar suddenly became weak. Dealers here are perplexed and are unable to assign an adequate reason for this abrupt movement.

BINGHAM

RGC:SMS

Sat. H. M.

By Bell

118

White House
April 17th
1937

TO THE CONGRESS OF THE UNITED STATES:

In my Budget message of January 5, 1937, I said that I would transmit at a later date an estimate of appropriation for work relief for the fiscal year 1938. In connection with the transmission today of this estimate it is desirable to review our present fiscal situation.

Budget estimates of four months ago indicated a net deficit for the current fiscal year (not including debt retirement) of \$2,248,000,000. They also indicated a surplus (not including debt retirement) for the fiscal year 1938 of \$1,537,000,000, exclusive of any provision for a work relief appropriation. On the basis of these estimates, therefore, an appropriation for work relief for the fiscal year 1938 of any sum less than \$1,537,000,000 would have left at the end of that year an excess of receipts over expenditures.

Since January, however, new factors have so altered the fiscal situation as to make it necessary to present revised estimates of receipts and expenditures. There is attached to this message a statement showing the present estimates

of receipts and expenditures for the fiscal years 1937 and 1938 as compared with the estimates of last January. A glance at this statement will show that the principal factor is the decline in tax receipts below our previous expectations.

Fiscal Year 1937

The analysis of returns received in March 1937 under the new tax law indicates that income taxes will produce \$267,200,000 less than the estimate for the fiscal year 1937. The receipts for the first nine months of this fiscal year indicate that other revenues will be \$354,500,000 less than the estimate, which is due in large part to the obstruction of collections by numerous lawsuits against the Government.

In view of the reduction in revenue it became apparent that every effort should be made to offset this loss as far as possible by a reduction in expenditures. To this end I have directed the heads of various Government activities to make a careful examination of their expenditure requirements for the last three months of the present fiscal year with a view to making substantial savings by eliminating or deferring all expenditures not absolutely necessary during this period, the money so saved to revert to the Treasury. Information thus far

available indicates that the 1937 expenditures for this year will probably be \$280,000,000 below the estimate of last January.

The amount of the net deficit for the fiscal year 1937 is therefore estimated at \$2,588,252,300, an increase of \$340,123,526 over the January estimate.

Fiscal Year 1938

For the fiscal year 1938 it is now estimated that receipts will be \$419,400,000 less than was anticipated last January, of which \$410,000,000 represents a reduction in the estimate of income taxes.

Pending the enactment of the 1938 appropriation bills it has been impossible to make any material revision of the estimates of expenditures for that fiscal year, other than for recovery and relief.

The revised estimates of receipts and expenditures for the fiscal year 1938 as here presented indicate an estimated net deficit of \$432,785,000. There is included in the estimates of expenditures the \$1,500,000,000 for work relief hereinafter recommended. I propose to use every means at my command to eliminate this deficit. I expect to accomplish this by

taking definite action at the beginning of the next fiscal year (1) to withhold from apportionment for expenditure in so far as possible with due regard to proper functioning of the executive departments and agencies a substantial percentage of the funds available for that year, and (2) to increase the receipts of the Treasury through the liquidation of assets of certain of the emergency agencies.

I regard ~~it as extremely important~~ that we should achieve a balance of actual income and outgo for the fiscal year 1938, and I appeal to you to join me in a determined effort to bring about that result.

What I have said is predicated on two highly important conditions. The first is the extension of existing taxes which expire this year. The second is the maintenance of appropriations made at this session within the total of the Budget estimates. Any substantial increase in appropriations would of course nullify our efforts to prevent a deficit in 1938.

And while I recognize many opportunities to improve social and economic conditions through Federal action, I am firmly convinced that the success of our whole program and the permanent security of our people demand that we adjust all expenditures within the limits of my budget estimate.

Future Fiscal Policy

I wish to emphasize here what I said last January with respect to our future fiscal policy:

"Expenditures must be planned with a view to the national needs; and no expansion of Government activities should be authorized unless the necessity for such expansion has been definitely determined and funds are available to defray the cost. In other words, if new legislation imposes any substantial increase in expenditures either in the expansion of existing or the creation of new activities, it becomes a matter of sound policy simultaneously to provide new revenue sufficient to meet the additional cost."

Announced
Bills being pressed for enactment during the pre-

sent Congress would commit the Government to early expenditures of more than \$5,000,000,000. About \$3,000,000,000 of these authorizations are for the construction of additional public works, even though there are existing authorizations of almost \$2,000,000,000 for this purpose. In the Budget for the past three years I have set up a program for general public works and have announced that I propose to keep such a program within the limit of \$500,000,000 a year. An annual program of this size should meet normal needs for highway, flood control, rivers and harbors, reclamation, Federal buildings, and other public works.

I recognize the need for flood prevention and control but it should be realized that to finance such large immediate expenditures as are contemplated by the majority of the

flood control bills now pending in Congress would impose an unjustifiable burden upon the Federal Treasury.

Bills involving additional authorizations of more than \$500,000,000 for highways have been introduced despite the fact that expenditures for this purpose during the last four years have exceeded one billion dollars and that there are existing authorizations for expenditures during the next two years of nearly \$450,000,000.

The maintenance of a sound fiscal policy requires the careful planning of authorizations as well as appropriations. It is impossible to maintain the proper balance between revenue and expenditures unless restraint is exercised with respect to authorizations of appropriations. It is a matter of concern to all of us who are working for a balanced budget that organizations, associations, and other groups exert the strongest pressure to bring about increases in Government expenditures. These pressure groups pay little attention to the fact that the budget, as submitted, represents a coordinated fiscal program and that material departures therefrom destroy the whole purpose

of the program. If we are to avoid a continuation of deficits, we must resist these impertunities or provide the necessary revenues to meet the increasing costs.

It has become apparent that there is an immediate need for a careful survey of the present tax structure. The Treasury will be prepared by November, next, to present to the appropriate committees of Congress information as to such loopholes as may exist in the present revenue laws, and suggestions for such new or additional taxes as may be necessary to meet deficiencies ^{if any} in the revenue-producing power of the present levies. This will permit these committees to study such information and suggestions for the purpose of proposing early in the next session of Congress legislation necessary to remedy defects in the present tax laws.

Relief of Unemployed

I now come to the subject of relief of the unemployed for the fiscal year 1936. Many intelligent persons approach this subject with insufficient knowledge and with the primary consideration of dollars and cents. Their attitude, in

effect, is that the States, counties and municipalities should carry the whole burden of relief for the needy unemployed. The simple answer is that the great majority of States, counties and municipalities cannot assume the whole burden and remain solvent. This school of thought then proceeds to the hypothesis that the Federal Government should cut its relief appropriations to whatever sum is necessary to balance the Federal budget. When it is pointed out that such a sum would be wholly insufficient to give work to those of the unemployed who can work, the suggestion is made that the Government give home relief only -- in other words, a dole without work. I continue my opposition to a dole as expressed in my message of January 3, 1935 --

"To dole out relief in this way is to administer a narcotic, a subtle destroyer of the human spirit. It is inimical to the dictates of sound policy. It is in violation of the traditions of America. * * * We must preserve not only the bodies of the unemployed from destitution but also their self-respect, their self-reliance and courage and determination."

We are told that the work performed by those on work relief projects is less efficient than if the same work were carried on by a private contractor. While this is doubtless true it does not justify the conclusion that work relief should be abandoned.

The benefits to the workers on relief projects thoroughly justify, as indicated above, the additional cost of such projects. Therefore, I strongly recommend that work continue to be provided for the unemployed just as far as the Federal Government can properly provide it.

During the past year a continuing check has been made for the purpose of eliminating from the work relief rolls those who should not be so assisted. Furthermore, there has been large reemployment by private industry. The result is that today only 2,200,000 unemployed are at work on Federal projects as against 3,300,000 last year.

Definite progress is being made in making it possible for persons performing relief work to take private employment and if this private employment ends to return to the work relief rolls without an undue delay. The character of work performed has also improved in quality and usefulness.

There can be no question as to the availability of useful work relief projects. Many projects in cities, villages, and county districts, calling for a maximum of labor

and a minimum of materials, still exist. Furthermore, as we develop maximum planning for the preservation of our natural resources, more useful work of this kind can be made available to relief workers. As a corollary to this it seems wise, at this time, to spend less money on permanent structures which require a large amount of heavy material and a small amount of labor on the site.

I should like to make an appeal to the private employers throughout the Nation. On them will rest the final figures of necessary relief expenditures for the fiscal year 1938. It should be pointed out to them that a very large proportion of those now on the relief rolls are unskilled workers or men and women above the age of forty and not yet eligible for old age pensions. If every employer in the United States, large and small, could give jobs to these fellow-citizens who are now on work relief, our problem in the national legislature and in the Administration would be greatly simplified. Even if such employment is given for only a few months -- even if it covers only a small proportion of those now employed by private industry, it

would greatly help. There are today in the United States approximately forty million people who work for wages. If the employers would, during the coming year, take on one million of those now on the work relief rolls, they would be doing more than helping their government -- they would be helping humanity as well.

I recommend an appropriation of \$1,500,000,000 for this purpose to cover the fiscal year 1938. I trust that this appropriation can be made available early in June so that proper planning can be undertaken for its expenditure after July first.

REVISED ESTIMATES OF RECEIPTS AND EXPENDITURES FOR THE
FISCAL YEARS 1937 and 1938 AS COMPARED WITH ESTI-
MATES INCLUDED IN THE 1938 BUDGET FOR THESE
YEARS.

General and Special Accounts	Revised estimates fiscal year 1938	Estimated in 1938 Budget fiscal year 1938	Revised estimates fiscal year 1937	Estimated in 1938 Budget fiscal year 1937
I. Receipts:				
Internal revenue	\$ 6,283,000,000	\$ 6,648,432,000	\$ 4,549,000,000	\$ 5,189,020,000
Customs	463,000,000	463,000,000	465,000,000	446,800,000
Miscellaneous receipts	200,000,000	182,175,197	210,000,000	192,330,719
Total, receipts	\$ 6,946,000,000	\$ 7,293,607,197	\$ 5,224,000,000	\$ 5,828,150,719
II. Expenditures:				
1. Legislative, judicial and executive	\$ 41,000,000	\$ 41,344,300	\$ 40,000,000	\$ 41,390,550
2. Civil departments and agencies	712,000,000	708,292,178	650,000,000	649,538,698
3. General Public Works Program	440,000,000	451,108,903	300,000,000	318,590,000
4. National defense	953,000,000	980,763,000	840,000,000	887,881,080
5. Veterans' pensions and benefits	570,000,000	577,524,000	570,000,000	580,771,465
Adjusted compensation payments			559,000,000	563,500,000
6. Agricultural adjustment program	524,000,000	482,400,000	518,000,000	467,610,000
7. Civilian Conservation Corps	350,000,000	1/	379,000,000	368,000,000
8. Social Security	286,000,000	295,974,000	186,000,000	174,637,500
Old-age reserve account	540,000,000	540,000,000	285,000,000	225,000,000
9. Interest on the public debt	860,000,000	860,000,000	840,000,000	835,000,000
10. Refunds	53,000,000	52,946,900	44,000,000	48,203,100
11. Recovery and relief	1,820,000,000	2/ 316,030,913	2,630,000,000	2,166,157,100
12. Supplemental items	175,000,000	450,000,000	.....	750,000,000
Total, expenditures (exclusive of debt retirements)	\$ 7,324,000,000	\$ 5,756,484,254	\$ 7,781,000,000	\$ 8,076,279,493
III. Net deficit (-) or net surplus (+).....	- 418,000,000	+ 1,537,122,943	- 2,557,000,000	- 2,248,128,774

1/ Funds for continuation of the Civilian Conservation Corps are included under "supplemental items."
2/ To be increased by any amount appropriated by Congress for recovery and relief for the fiscal year 1938. As indicated in the message it is hoped the amount will not exceed \$1,537,123,000.

Sat. P.M. corrected
after seeing Pres.

1mm (Linn)

April 17/37
No 3

TO THE CONGRESS OF THE UNITED STATES:

In my Budget message of January 5, 1937, I said that I would transmit at a later date an estimate of appropriation for work relief for the fiscal year 1938. In connection with this estimate it is desirable to review our present fiscal situation.

Budget estimates made last December indicated a net deficit for the current fiscal year of \$2,248,000,000. They also indicated a net surplus for the fiscal year 1938 of \$1,537,000,000, exclusive of any provision for a work relief appropriation. On the basis of these estimates, therefore, an appropriation for work relief for the fiscal year 1938 of any sum less than \$1,537,000,000 would have left at the end of that year a budget in balance.

Since then, however, new factors have so altered the fiscal situation as to make it necessary to present revised estimates of receipts and expenditures. There is attached to this message a statement showing the present estimates for the fiscal years 1937 and 1938 as compared with the estimates in my

Handwritten note on the left margin: "This is the P.M. at White House Monday"

Budget message. A glance at this statement will show that the principal factor is the decline in tax receipts below our previous expectations.

Fiscal Year 1937

The analysis of returns received in March 1937 under the new tax law indicates that income taxes will produce \$267,200,000 less than the estimate for the fiscal year 1937. The receipts for the first nine months of this fiscal year indicate that other revenues will be \$337,000,000 less than the estimate, which is due in large part to the obstruction of collections by numerous lawsuits against the Government.

In view of the reduction in revenue it became apparent that every effort should be made to offset this loss as far as possible by a reduction in expenditures. To this end I have directed the heads of various Government activities to make a careful examination of their expenditure requirements for the last three months of the present fiscal year with a view to making substantial savings by eliminating or deferring all expenditures not absolutely necessary during this period, the money so saved to revert to the Treasury. Information thus far available

indicates that the 1937 expenditures for this year will probably be \$295,000,000 below the estimate of last January.

The amount of the net deficit for the fiscal year 1937 is therefore estimated at \$2,557,000,000, an increase of \$309,000,000 over the January estimate.

Fiscal Year 1938

For the fiscal year 1938 it is now estimated that receipts will be \$387,600,000 less than was anticipated last January, the reduction of \$410,000,000 in the estimate of income taxes being slightly offset by increases in other receipts.

Pending the enactment of the 1938 appropriation bills it has been impossible to make any material revision of the estimates of expenditures for that fiscal year, other than for recovery and relief.

The revised estimates of receipts and expenditures for the fiscal year 1938 as here presented indicate an estimated net deficit of \$418,000,000. There is included in the estimates of expenditures the \$1,500,000,000 for work relief hereinafter recommended.

I propose to use every means at my command to eliminate this deficit. I expect to accomplish this by taking definite action at the beginning of the next fiscal year (1) to withhold from apportionment for expenditure in so far as possible with due regard to proper functioning of the executive departments and agencies a substantial percentage of the funds available for that year, and (2) to increase the receipts of the Treasury through the liquidation of assets of certain of the emergency agencies.

I regard it as extremely important that we should achieve a balance of actual income and outgo for the fiscal year 1938, and I appeal to you to join me in a determined effort to bring about that result.

What I have said is predicated on two highly important conditions. The first is the extension of existing taxes which expire this year. The second is the maintenance of appropriations made at this session within the total of the Budget estimates. Any substantial increase in appropriations would of course nullify our efforts to prevent a deficit in 1938.

And while I recognize many opportunities to improve social and economic conditions through Federal action, I

am convinced that the success of our whole program and the permanent security of our people demand that we adjust all expenditures within the limits of my budget estimate.

Future Fiscal Policy

I emphasize here what I said last January with respect to our future fiscal policy:

"Expenditures must be planned with a view to the national needs; and no expansion of Government activities should be authorized unless the necessity for such expansion has been definitely determined and funds are available to defray the cost. In other words, if new legislation imposes any substantial increase in expenditures either in the expansion of existing or the creation of new activities, it becomes a matter of sound policy simultaneously to provide new revenue sufficient to meet the additional cost."

Bills being pressed for enactment during the present Session would commit the Government to early expenditures of more than \$5,000,000,000. About \$3,000,000,000 of these authorizations are for the construction of additional public works, even though there are existing authorizations of almost \$2,000,000,000 for this purpose. In the Budget for the past three years I have set up a program for general public works and have often said that such a program should be kept within

the limit of \$500,000,000 a year. An annual program of this size should meet normal needs for highway, flood control, rivers and harbors, reclamation, Federal buildings, and other public works.

I recognize the need for flood prevention and control but it should be realized that to finance such large immediate expenditures as are contemplated by the majority of the flood control bills now pending in Congress would impose an unjustifiable burden upon the Federal Treasury.

Bills involving additional authorizations of more than \$500,000,000 for highways have been introduced despite the fact that expenditures for this purpose during the last four years have exceeded one billion dollars and that there are existing authorizations for expenditures during the next two years of nearly \$450,000,000.

The maintenance of a sound fiscal policy requires the careful planning of authorizations as well as appropriations. It is impossible to maintain the proper balance between revenues and expenditures unless restraint is exercised with respect to authorizations of appropriations. It is a matter of concern to

you and to me who are working for a balanced budget that so many special groups exert the strongest pressure to bring about increases in Government expenditures. They pay little attention to the fact that the budget, as submitted, represents a coordinated fiscal program and that material departures therefrom destroy the whole purpose of the program. If we are to avoid a continuation of deficits, we must resist these importunities or provide the necessary revenues to meet the increasing costs.

It is a matter of common knowledge that the principal danger to modern civilization lies in those nations which largely because of an armament race are headed directly towards bankruptcy. In proportion to national budgets the United States is spending a far smaller proportion of Government income for armaments than the nations to which I refer. It behooves us, therefore, to continue our efforts to make both ends of our economy meet.

Survey of Tax Structure

It has become apparent that there is an immediate need for a careful survey of the present tax structure. The

Treasury will be prepared by November, next, to present to the appropriate committees of Congress information as to such loopholes as may exist in the present revenue laws, and suggestions for such new or additional taxes as may be necessary to meet deficiencies if any in the revenue-producing power of the present levies. This will permit these committees to study such information and suggestions for the purpose of proposing early in the next session of the Congress legislation necessary to remedy defects in the present tax laws.

Work Relief

I recommend that an appropriation of \$1,500,000,000 be provided for work relief for the fiscal year 1938, and that it be made available early in June so that its expenditure can be properly planned prior to July first.

REVISED ESTIMATES OF RECEIPTS AND EXPENDITURES FOR THE
FISCAL YEARS 1937 and 1938 AS COMPARED WITH ESTI-
MATES INCLUDED IN THE 1936 BUDGET FOR THESE
YEARS.

General and Special Accounts	Revised estimates fiscal year 1936	Estimated in 1936 Budget fiscal year 1936	Revised estimates fiscal year 1937	Estimated in 1936 Budget fiscal year 1937
I. Receipts:				
Internal revenue	\$ 6,225,000,000	\$ 6,448,432,000	\$ 4,549,000,000	\$ 5,189,020,000
Customs	469,000,000	463,000,000	469,000,000	466,800,000
Miscellaneous receipts	800,000,000	182,175,197	210,000,000	192,530,719
Total, receipts	\$ 6,906,000,000	\$ 7,293,607,197	\$ 5,228,000,000	\$ 5,848,350,719
II. Expenditures:				
1. Legislative, judicial and executive	\$ 41,000,000	\$ 41,344,500	\$ 40,000,000	\$ 41,990,950
2. Civil departments and agencies	712,000,000	708,392,178	650,000,000	649,536,698
3. General Public Works Program	440,000,000	451,100,963	300,000,000	318,990,000
4. National defense	953,000,000	940,753,000	840,000,000	887,881,080
5. Veterans' pensions and benefits	570,000,000	577,524,000	570,000,000	566,771,465
6. Agricultural adjustment payments .....	.....	.....	599,000,000	565,500,000
7. Civilian Conservation Corps	524,000,000	482,400,000	518,000,000	467,210,000
8. Social Security	350,000,000	.....	379,000,000	366,000,000
9. Interest on the public debt	286,000,000	295,974,000	186,000,000	174,637,500
10. Refunds	540,000,000	540,000,000	285,000,000	225,000,000
11. Recovery and relief	840,000,000	860,000,000	840,000,000	835,000,000
12. Supplemental items	1,820,000,000	2,316,030,913	2,650,000,000	2,166,157,100
	175,000,000	450,000,000	.....	750,000,000
Total, expenditures (exclusive of debt retirements)	\$ 7,344,000,000	\$ 5,756,484,254	\$ 7,781,000,000	\$ 8,076,879,465
III. Net deficit (-) or net surplus (+)	- 438,000,000	+ 1,537,122,943	- 2,557,000,000	- 2,228,528,746

Funds for continuation of the Civilian Conservation Corps are included under "Supplemental items."
To be increased by any amount appropriated by Congress for recovery and relief for the fiscal year 1936. As indicated in the message it is hoped the amount will not exceed \$1,537,123,000.

Those present Robinson - Rayburn
Bell, Jimmy Byrnes - The Gester
Pat Harrison - Taylor - Doughton
V.P. Colorado

April 17, 1937

For the Secretary:

Frank Williams, of the local bank, who is also a director in the Federal Reserve Bank of Chicago, is much less jittery about the Government bond market than he was the first week of the break, but he still has qualms, and maintains that other bankers in this section also have. It is true that his bank has not been too conservative in the bond dealings, and they now have fairly heavy holdings of long terms. So much so in fact that a number of townspeople have mentioned the fact to me. Whether there is enough comment to lead to distrust of the ban or not I cannot say. Mr. Williams is inclined to think (after talking to Walter Cummings in Chicago his feeling is strengthened) that the Government owes bondholders a duty to push bonds back up to about where they were. The Administration and the Treasury and the Federal Reserve have assured the ~~market~~ banks and the people generally that easy money will continue, which means that bond prices will be maintained at their high levels. He thinks a gradual increase will do the trick.

Mr. Williams knows and has met only two members of the Federal Reserve Board. He thinks that the Board should pay more attention to the directorate of the banks, have the nine from each of the twelve banks in to Washington for a meeting, where they can get acquainted and understand each other better.

Upm

The Government Security Market

Week ended April 17, 1937

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The trend to the United States government security market was upward each day last week and although gains on individual days were small substantial ground was recovered. Turnover was light as trading was principally in small lots but a good tone prevailed and large blocks of securities were difficult to obtain. The average price of Treasury bonds advanced 0.64 to 103.97; this is about one point above the low reached on April 1st. Individual gains by Treasury bonds ranged from about 3/8ths of a point to 1 point.

Guaranteed issues advanced about 23/32nds in the average.

In the Treasury note market intermediate and long maturities were in good demand and gains ranging from 13 to 23/32nds were recorded. The September 1937 notes were unchanged while the four 1938 maturities finished 1 to 3/32nds better.

J. H. Harris

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 17, 1937, 9 a.m.

NO.: 491

FROM COCHRAN.

Re telegram No. 169 of April 13, noon, from the Department.

I submit the following account of interviews with two important officials, as introduction to a general review of financial developments of this week.

I reported in my telegram No. 458 of April 7, 4 p.m., that I had that day been informed at the Bank of France that the net acquisition of gold and foreign exchange by French control since the change in policy took place early in March in francs amounted to 4,500,000,000. Yesterday (April 16) at 11 a.m. I called on Cariguel at the Bank of France. Cariguel told me that since the market ten days ago had "turned" against the franc because of the rumor that the dollar would be revalued upward, and also because fewer dollars were being made available to European markets through gold arbitrage, the above-mentioned figure had not changed much. Control officials thought that as payments to the national defense loan had been completed, they had perhaps acquired about as much foreign exchange as was possible at the favorable rate which had prevailed since the new policy went into

- 2 -

effect. Therefore they took advantage of the gold scare situation to let the franc sink to its natural level which was found to be around 110 francs to the pound, through a wide intervention in the market.

In the intervening period there have been some days when the control gained foreign exchange, and some days when it lost foreign exchange. Up to Thursday evening on balance the control had lost only 20,000,000 francs foreign exchange since the turn of the market. 63,000,000 francs of foreign exchange were spent on the heaviest day. On Friday at 11 o'clock when I was with Cariguel, he had during the forenoon already sold 40,000,000 francs of sterling; later the situation improved, but he was again giving pounds in the evening. Trading on Thursday was distinctly discouraging to him. He told me that for that day he was a gainer of foreign exchange on balance by 23,000,000 francs only because the Soviets had made certain similar recurrent sales of sterling and dollars. The Bank of France, although it received foreign exchange from this source, was apparently the only provider of foreign exchange to meet the demands of the market.

During our conversation I asked Cariguel whether the three and a half billion francs by which the deposit account of the Treasury with the Bank of France was raised

in

- 3 -

in the April 9 statement would be further increased in the period which ends on the sixteenth of April. His answer was that practically all of the proceeds from the new defense loan had been in by the ninth of April. Therefore he did not expect that there would be an increase in the account. It had been necessary on the contrary, as they received funds for the loan, to send parts of them to various paying agencies for the purpose of liquidating certain bills which were outstanding. No effort had been made to have a large amount on deposit in the Bank at any one time to give an appearance of strength. Cariguel practically confirmed the opinion which the French financial press has expressed - that the Government has already disposed of the balance of the 8 billion francs which it received, i.e., 4 1/2 billion for the purpose of meeting outstanding bills and to provide current funds for paying agencies.

In a previous telegram I reported the request of the French Federation of Labor that a loan be issued by the Government in the amount of ten billion francs, to finance additional public works, and the denial that any loan of this type will be floated made by Minister Auriol. The later stated that for this year the national defense loan will be the only long term securities which the Treasury will issue.

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issue. I mentioned to Cariguel that under existing legislation, it would appear that the Treasury could borrow from the Bank of France only an additional 900,000,000 francs. I asked him how they were going to raise perhaps 20,000,000,000 francs which may be the requirements of the Government for the remainder of the year. I ventured to suggest that at present sentiment was apparently such that there would be little chance of marked success for Auriol's plan for issuing short-term paper to banks. I was reminded by Cariguel that there was always the chance that further legislative authority might be sought by the Government for borrowing from the Bank of France. Cariguel expressed the opinion that there might possibly be a Senate veto to such a plan. Speaking entirely unofficially he said he had been advised that just this point might wreck the Government one of these days.

My friend told me that he looks for little further return of French funds from abroad or dehoarding of gold in France, except for absolute commercial requirements during the present unrest. He attributes this unrest primarily to the extent to which labor is controlling the Government and constituting a constant threat to capital. French holders of funds abroad are not likely to repatriate their funds on any large scale as long as Jouhaux and other labor and Left leaders make public declarations which

anticipate

- 5 -

anticipate capital levies, forced loans, or nationalization of credit. In France Cariguel asserted there is a real foundation for an economic revival. Frenchmen are anxious he said to see their country develop in line with other nations' progress, but the present Government does not hold their confidence enough for them to invest in it. In view of the fact that I am giving views which are extremely confidential and personal, I should add that my friend is as unhappy as ever over the governorship of the Bank of France being entrusted to a person whose colleagues in other central banks - as well as his own personnel, - find him entirely incompetent for the position.

Yesterday Cariguel had a telephone conversation with Bolton of the Bank of England, ~~whom~~ and the latter told Cariguel that British Banking representatives visiting Paris came back with a bad impression of the labor situation in France. This point is being carefully watched, therefore, by London banks. I asked Cobbold of the Bank of England at Basel last Sunday whether the British would be ready to assist the French with another credit by July of this year. Cobbold asked me whether it was not about the turn of the United States to help.

I had a talk on Thursday noon with Professor Rist, French economist, and one of the Committee of Four which is formulating the policy for the French control fund operated by Cariguel.

- 6 -

guel. The fact that approximately five billion francs of gold had been acquired by the fund under the new management was confirmed by Professor Rist. There was a sharp demand, he said, bby business concerns in France for capital. Since the subscriptions to the new loan have been paid he realized that the repatriation of funds had subsided. The Clichy riot had hurt the reflux, as well as labor developments, including a more rigid enforcement of the wider application of the forty-hour week than was anticipated by the French. French franc banking deposits, Rist said, had grown importantly; he believed it was significant that of the total deposits in French banks at present approximately one-third is constituted in foreign currencies, sterling and dollars being the principal currencies.

It is Rist's opinion that France should go forward for a couple of years at least, and in spite of armaments ~~extra~~ costs, if only they can overcome the threat from the Extreme Left and most particularly, the labor element. My friend deprecated the fears over the rise in prices expressed abroad - principally in the United States and Great Britain. For the past several years, he recalled, a rise in commodity prices had been prayed for by all, and he sees no cause for alarm now. He considers that the large production and release of gold is the saving factor

factor for the present situation. However, this occasion should be seized in his opinion to try to get such gold distributed more evenly among the central banks which now are short of gold, and in this way achieve a more deliberate move toward general monetary stabilization on gold. High French prices, he said, are called for because of the heavy indebtedness of France. He will not be disturbed by a rise therein as long as it is not beyond the world's market advance. In the present circumstances, he said, the French metallurgical industry is able to compete abroad. The trade difficulties in France may become very serious, he realizes, if the present rate of rise in prices should continue.

Rist feels that the forty-hour labor legislation had been chosen as a substitute for devaluation of the franc. He thinks that with devaluation achieved, the application of the labor legislation should be attenuated because it is excessive. The tendency is in both directions just now, he told me; i.e., the past week the labor legislation was applied very rigidly by the Government to some industries, and on the other hand the Government has seen fit to consider certain relief to various trades and industries complaining about the burden of the new legislation.

The technical manner of operation of the French control

was

- 8 -

was apparently quite satisfactory to Rist. While the acquisition of gold had been quite important immediately after the monetary policy was changed in March, a period of "varying weather" is now met, according to Rist. No attempt was being made by the fund to alter major tendencies, but it was merely trying to maintain, with as slight variations as possible, an orderly market.

END SECTIONS ONE TO SIX INCLUSIVE.

BULLITT.

EA:LWW

(SECTION SEVEN)

I told him, when asked the gossip at Basel, that his old friends of the B.I.S. thought that the most hopeful part of the new French program was that he, Rist, had been chosen as one of its advisers. However, I added that they regretted that there was no Poincare with him. Rist confessed that he felt the lack of a competent official at the head of the French Bank and said that Baudoin could do much better in that position than Labeyrie.

This week I reported the opening of a long term loan for nine hundred million francs by the City of Paris. It appears impossible for the Bank of France discount rate now to be reduced below four percent, with this 5 1/2 percent loan coming closely on top of the rather badly digested national defense issue. The new bonds of the French Republic ~~national/defense~~ are at a discount. In the present circumstances there is little chance of the old rentes approaching par. The new issue of national defense bonds (?) the market a high yield security with exceptional guarantees of currency and rate. (this sentence garbled) Thus it seems that France has lost entirely the chance to convert her national debt on anything like such favorable terms as the United States and some other countries succeeded in obtaining, following the devaluation of their respective currencies. Therefore France must continue with the heavy overhead burden of the national debt and presumably with the new requirements for rearmament.

PARAPHRASE OF TELEGRAM RECEIVED

NO.: 491 (Section eight)
DATE: April 17, 1937
FROM: American Embassy, Paris

An extremely powerful influence is exerted by Labor on the Government and the Government either lacks the strength or the inclination to prevent such a domination. Work on the Paris Exposition, where many thousand men are employed, is obviously being retarded by Labor for the purpose of making the work last as long as possible. There are recurring rumors that between now and the opening of the exposition there will be strikes. Capitalists are terrified and those who expect the exposition to bring many tourists and a great deal of foreign exchange to France are alarmed by possibilities of this kind. Even though the Exposition does open in May without too much difficulty, it is not expected that there would be much foreign exchange resulting ^{from} it before July, which is the beginning of the ordinarily popular tourist time.

In the meantime, many observers believe that by early June the proceeds of the national defense loan issued to date, amounting to eight billion, will have been spent. It will be necessary, in spite of the improvement in cer-

tain

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tain indices hereinafter mentioned, to issue the final two and one half billion franc tranche under the authorization recently given and then it will be necessary to formulate new ways to supply the Treasury. Some help might be obtained if funds in circulation are increased and deposits available in the various Government caisses are increased by the proceeds of the loan spent in France. Indications at the present time are, however, that before midsummer another financial crisis may develop.

BULLITT

EA:EB

LMS

GRAY

Paris

Dated April 17, 1937

Rec'd 11 a. m.

Secretary of State,
Washington.

491, April 17, 9 a. m. (SECTION NINE)

There follows a summary of certain financial and economic developments and indices pertaining to this review although not entirely limited to or available for past ten days.

The security market especially Government's has been depressed and nervous. On the week's trading rentes showed declines of over one franc.

The unemployment situation continues to improve. During the week ended April 10th the diminution amounted to 4391. Since the corresponding date of 1936 the number of unemployed has been reduced by about 71,000.

The upward trend in railway earnings continues. Revenue for the twelfth week of 1937 showed an increase of nearly 20 per cent over corresponding week of 1936.

On the other hand, after a certain improvement during November and December 1936 and January 1937, latest reports of savings banks show a return to the unfavorable situation which prevailed last year (when withdrawals from private

savings

LMS 2-No. 491, April 17, 9 a. m., Sec. 9, from Paris.

savings banks exceeded deposits by about two thousand eight hundred million francs). During February withdrawals exceeded deposits in state savings bank by forty-eight million francs; during the last 15 days of March withdrawals in private savings banks exceeded deposits by fifty-three million and during the period April 1 to April 15 about one hundred twenty-six million. This reversal of the trend of savings will no doubt prove disturbing to the Government as earlier in the year it had on many occasions pointed to the improvement which had taken place as an important indication of returning confidence.

With respect to foreign trade a deficit of

BULLITT

CSB

LMS

CRAY

Paris

Dated April 17, 1937

Rec'd 10:30 a. m.

Secretary of State,
Washington.

491, April 17, 9 a. m. (SECTION TEN)

about three and a half billion francs for the months of January and February is announced in the commercial balance compared with one thousand six hundred millions for the corresponding period of 1936.

Revenue from taxation showed some improvement during February. It was ninety-seven million francs more than estimates and three hundred forty millions more than for February 1936. Semi-official advance reports of March revenue indicate receipts of three hundred six millions more than estimates and three hundred thirteen millions more than for the corresponding period of 1936.

Wholesale prices continue to move upward. The general index of April 10 stood at 541 compared with 536 at March 27 and 404 in September 1936 prior to devaluation. The (?) index of revenues which stood at 494 in September 1936 moved up to 577 in February 1937. This corresponds to an increase of about 17% since date of devaluation. Retail prices remained practically unchanged during the month of March.

Industrial

LMS 2-No. 491, April 17, 9 a. m., Sec. 10, from Paris.

Industrial production stood at 97 in January 1936,
at 98 in October 1936 and at 100.50 in January 1937.

(END OF MESSAGE)

BULLITT

CSB

April 17, 1937.
11:56 A. M.

H.M.Jr: I'm just going over to fix the budget up for you.
Governor
George
Harrison: (Laughs)

H.M.Jr: Dan and I.

H: Well I didn't mean to bother you but what I wanted to report was that we are having a pretty quiet day here and now it's up a little.

H.M.Jr: Good.

H: Ah - ah - specifically though the Bank of Japan Agent called me up a little while ago

H.M.Jr: Yes.

H: and said that he had gotten a cable from the head office

H.M.Jr: Yes.

H: to the effect they were shipping or intending to send another lot of gold

H.M.Jr: Yes.

H: amounting to 60 million yen - that's about 20 millions of dollars, which will arrive on the 5th or - will arrive on May 6th.

H.M.Jr: I see.

H: And they go through all these various formalities and asked me if I wouldn't formally let you know so I'm doing so.

H.M.Jr: Thank you. Now George, while I've got you on the wire I wish you'd look up why some of these deposits of American Banks in London are going up so, particularly the Chase.

H: All right.

H.M.Jr: Ah - just what does that mean?

- 2 -

H: Yes.

H.M.Jr: Will you - will you - have you facilities for looking into that?

H: Well only by talking with him.

H.M.Jr: Well their - their deposits, I understand, have increased greatly since the first of January and I'd like to know why.

H: Yes. I don't know whether I'll be able to do anything today.

H.M.Jr: No - no - Monday's time enough.

H: All right; well, I'm going to be in Washington Monday so I hope maybe I'll see you then.

H.M.Jr: Righto.

H: We're having a meeting Tuesday.

H.M.Jr: Yes.

H: Are you going to the ball game?

H.M.Jr: No, I'm going over to the White House to work now.

H: No, I mean Monday.

H.M.Jr: No - no - no I don't go to any ball games.

H: Oh, you ought to.

H.M.Jr: Well, we've got too much to do here.

H: All right, Henry; well; I'll see you.

H.M.Jr: Thank you.

H: Goodbye.

LMS

GRAY

London

Dated April 17, 1937

Rec'd 12:50 p. m.

Secretary of State,
Washington.

224, April 17, 2 p. m.

FOR TREASURY FROM BUTTERWORTH.

Replying to your 130, April 13, noon.

The week before a budget speech, so often a turning point, is usually one of adjustment but this week's adjustment which in the commodity markets particularly have been severe, have been brought about not by budget prospects but by the "gold scare" events of the previous week which entailed much forced liquidation. While the denials from Washington reenforced by the Chancellor of the Exchequer's anti-deflationary statement in the House of Commons have been accepted in the city as meaning that no immediate action is contemplated, nevertheless, the problems arising out of the increase in recent years in the quantity and value of gold have been forcibly brought to the public's attention and have now become a subject of general discussion.

During the week the bullion market has made progress towards recovering its confidence. As gold shipments began

to

LMS 2-No. 224, April 17, 2 p. m., from London.

to arrive in the United States thus reducing arbitragers commitments, their readiness to take more gold for shipment increased. However, the American banks and other operators though they have in most cases resumed operations continue to limit their commitments to figures which until the recent scare would have been considered very moderate. Therefore the movement of the bullion market towards normality has not reached the point at which the price of gold in the London market is once more determined by relation to the dollar shipping parity; it has continued to be fixed day by day on a supply and demand basis and has settled at level at a discount of around two pence under the dollar parity.

The most noteworthy feature of the foreign exchange market was the manner in which the French Government took advantage of a particular and exceptional demand for dollars arising not out of French but out of American circumstances to accomplish the further depreciation of the franc towards the maximum quotation permitted under the French deflation act which given the present gold price is now $111\frac{1}{2}$ francs to the pound. Thus a currency measure which most French and foreign experts thought desirable but was also politically difficult was accomplished almost unobserved under cover of the gold price scare.

With

LMS 3-No. 224, April 17, 2 p. m., from London.

With the exception of gold mining shares the FINANCIAL TIMES index of which declined from 218 on April 8 to 213 on April 16, the stock exchange adequately absorbed considerable liquidation which had to be completed by Friday for the account which terminates on April 15.

The contrary has been true of the commodity markets. Reuters index registered yesterday the largest decline on a single day in any recent year in the commodities included in its price index. At the beginning of last week these commodities were worth in sterling just twice as much as on the day before the end of the gold standard with an appreciation of one-third against a year before. Since Monday week these prices as weighted by Reuters statisticians have been reduced by 7% and by over 2% yesterday alone.

The explanation given in today's STATIST is the one which is generally accepted in the city: "It has been generally anticipated that prices after a shake-out in speculative accounts would on a return to a somewhat more 'normal' level find support in resumed purchases by manufacturers and dealers as indeed happened to some extent notably on the lead market. The downward movement aroused, however, in its course a number of other bear factors

such

LMS 4-No. 224, April 17, 2 p. m., from London.

such as the effects of stop-loss orders and hedge-selling and was further intensified by bear speculation in more than one section of the metal trade. It almost seems at the moment as if professional speculators favor further price reductions while the legitimate trade and many manufacturers look on ready to step in when the position has been clarified".

It is said that there are one or two "difficulties in Mincing Lane" and that tidying-over arrangements are now being made. But while it is generally believed that the long term trend of commodity prices since the middle of last year is an upward trend it is by no means held certain that the reaction has yet taken commodity prices to the "genuine" trend level.

BINGHAM

CSB

First of all, as regards commodities. Whilst the primary reason of the rising commodities are certainly armaments, one must not overlook speculation. Already when I was in America, I pointed out, especially to your Federal Reserve people, that I did not see any signs in the United States of speculation in securities, but many signs of speculation in commodities. That speculation answered all the definition of speculation, including borrowed money on small margins. I have learned since that, for instance, as regards copper, many big concerns sold their copper in advance at a price lower than 60 and after that even went short to a certain extent. The boom in copper was then produced mostly by medium and to a great extent by small speculators, who bought futures with small margins. It is true that this happened not only in the United States but in Europe. It is also true that it would be highly desirable, as I already then pointed out, to curtail such speculation simply by rendering impossible small deals and permitting the sale of futures only for comparatively large quantities. One of the reasons why there was no such speculation in oil is certainly the fact that oil is not sold in small volumes.

Markets became vulnerable not only as regards commodities, but in Europe and in South Africa also as regards mining stocks, both bought on small margins, and here I revert to all our conversations in Washington about gold. It seems to me that a good many people, seeing how vulnerable especially the Johannesburg market had become, profited by some false reports from Washington and even spread these reports to produce a big drop in gold mining shares. Of course, this was facilitated by over speculation in South Africa, especially, and by a certain basis which consisted in views expressed by several economists on one side and several groups on the other side, presenting in America their recommendations towards a reduction in the purchase price of gold.*

I, of course, understood perfectly well from the start that the American policy would remain unchanged. It was obvious to me that:

- a) a change of that policy was contrary to the international stabilization idea which prevails, according to my impression, in Washington;
- b) it would produce intense opposition in Congress;
- c) it would necessitate a revaluation of all your gold reserves, which would mean a substantial loss;

* Mr. Sprague's public speeches in Europe and private utterances seem to have contributed greatly to the rumors, as he is still credited here with influence and authority.

- 2 -

d) it would inflict a blow to your cheap money policy, as a deflationary measure, after your bond market had already received a rather severe, though temporary, knock as a consequence of a perhaps too drastic increase in reserve requirements. At least, this latter measure played, in my opinion, quite a substantial part, which, as you will recall, I predicted at the time;

e) last not least, there is every reason to believe, although I have not yet talked with my London friends, that in case the United States decreased the gold purchase price, the English would not follow, because for them cheap money stands uppermost and the Sterling would then fall in New York to 4.60 or even 4.50, which would probably suit the book of the English but not yours;

f) the rumor naturally also incited people to buy dollars and, therefore, part of your gold imports are in the last months due to it. It is obvious that people risk nothing in buying dollars and may make some money, if the rumor materializes, and it would be an error to think that a decrease of the gold price would then stop the influx of gold. On the contrary, many people would consider it as a first step only in the same direction. I think that psychologically that rumor played quite an important part in the gold movement towards the United States. It acted exactly in the opposite sense than when at the beginning of American stabilization you left yourselves a margin of over 16%, between 60 cents and 50 cents, for an eventual further devaluation, precisely with the object of not attracting capital by a final stabilization, whilst the other currencies were not yet stabilized.

As regards France, it looks to me as if the franc will go to its lower level and at the back of the mind of the French authorities there is certainly the desire to then stabilize it, because it would give them not only a profit of over 6 billion francs on the gold reserve, but the possibility to return to the Treasury 10 billion francs of the stabilization fund, which I am told is now mostly in francs and, therefore, cannot serve a useful purpose.* This would substantially prolongate the financial life of the present government. There is a kind of political truce for the time of the Paris World Fair, but one cannot tell what unforeseen events may happen in the meantime. If the cabinet does not fall in the short session of Parliament which will soon take place, then the real political battle will take place undoubtedly in the Fall and certainly when the financial difficulties will again arise. Although tax receipts will increase, I am afraid that expenditures and Treasury needs will also increase. The latter are already tremendous and the government is not strong enough to withstand demands. The foreign trade situation, especially exports,

* I hear that Rist and other official experts oppose this stabilization, as it would be solely an expedient to procure some cash, as long as there is no reasonable certitude to hold that rate.

- 3 -

are hampered by a large increase of costs, part of which is due to a decrease of productivity of labor, which is the consequence of loss of labor discipline, and this is, of course, much more serious than the consequences of increased wages, etc. I will not enter into a dissertation about the 40 hours week. I only think it was done in France at the wrong time and in general all the French economic and social legislation could only take place after having assured easy credit and cheap money. Without the latter, the government has bitten off much more than it can chew and on that account the French situation is exactly the contrary of the American one.

I have been in Brussels the other day and friends of Van Zeeland seem quite sanguine about the prospects of his new task. I am told that the first idea of entrusting him with it was put forward by the King of Belgium in his private visit to London. I think it is an excellent idea and I understand that Van Zeeland is elaborating a rather complete plan for restoring world economics. This plan includes even the war debt question and, of course, currency stabilization.

I am going now to London for a fortnight, as I have quite a number of business matters to attend to. I will see a great many people and what I am most interested in is how they propose to continue the cheap money policy. I hear that they will increase by 3d. the income tax, as a measure preparatory to the issuance of their armament loan, which should take place in a few weeks. Of course, as I always contended, cheap money is paramount in their minds, which was confirmed lately in the House of Commons by Neville Chamberlain in no ambiguous manner, with a clear allusion also to keeping the gold price up on the London market.

* * * * *

P.S. I have just been reading a highly interesting article of a friend of mine, one of the most prominent German-Swiss economists, very clear-sighted and modern. His point is that one cannot, at the same time, desire to keep up cheap money and thus be able to carry on relief and favorize also re-employment in industry, and put a curb on a coming boom, which can only be done, seriously speaking, by restricting credit and, therefore, driving up interest rates. His contention is also that, as the path of recovery is never smooth and uniform, a certain drop in prices may also occur, even outside of any governmental pressure. The latter, if added to the former, would produce a very sharp set back and, therefore, increase government expenditures for relief. He seems to think that to keep things on an even keel, which is the dream of so many economists, is practically impossible, and that one has to choose between cheap money and a stoppage of, or even a set back to recovery. As this coincides greatly with my own views, I found it highly interesting as a check on my own opinion.

eris.

April 17, 1937

Raffalovich
to U.S.

April 17, 1937

MAJOR BILLS AUTHORIZING APPROPRIATIONS IN
EXCESS OF TEN MILLION DOLLARS

- H. R. 6240 -- Bankhead Farm Tenancy Act--To enable farm tenants to acquire farms by loans, under certain terms and conditions, from the Secretary of Agriculture. S. 106 establishes a Farmers' Home Corporation for this purpose.
- S. 1397 -- Federal Crop Insurance Act--Creates the Federal Crop Insurance Corporation with a capital of \$100,000,000 to be subscribed by the United States for the purpose of insuring wheat producers against loss due to drought, flood, hail, wind, insects, etc.
- S. 1685 -- Wagner Housing Bill--Creates United States Housing Authority with capital stock of \$1,000,000 owned by the United States to promote low-rent housing for families of low income, authorizes a \$51,000,000 appropriation to the Authority for 1938, and permits it to borrow up to \$1,000,000,000, obligations therefor to be guaranteed by the United States.
- H.R. 5033
- S. 1757 -- Sugar Act of 1937--Directs the Secretary of Agriculture to fix import sugar quotas for various sugar-producing areas and to limit imports of sugar to the excess of consumption requirements over domestic production. Also directs Secretary to establish acreage and sugar quota marketing allotments on basis of past production and importation. In addition, the Secretary is authorized to make payments (70¢ per 100 lbs.) to producers who comply with production quotas, employ no child labor, pay living wages, protect share croppers, etc.
- H. R. 5326
- H. R. 6277 -- Elimination of Railroad Crossings--To provide a program for the elimination of hazard to life and property at railroad grade crossings.
- S. 419 -- Public Education--Authorizes an annual appropriation of \$100,000,000, increased by \$50,000,000 a year to a maximum of \$300,000,000, to be allotted among the States for the improvement of public schools, providing that the States continue to maintain schools for not less than 160 days per year and expend as much for education as they expended during 1936, supervision of educational programs to be left to the States.

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S. 13 — Water Pollution Act— Makes permanent the National Resources Committee composed of the Secretaries of Interior, War, Treasury, Agriculture, and Labor, the Federal Emergency Relief Administrator, and three appointive members. Directs the Committee (a) to classify navigable waters, (b) to fix standards of purity for water, (c) to establish minimum requirements as to treatment of polluting material, and (d) promulgate regulations governing discharge of such material into these waters.

H.R. 3592 — Flood Control— Creates an Arkansas Valley Authority, a body corporate, to control flood waters in the Arkansas and White River valleys and Mississippi River basin, and to improve navigability of the Arkansas and White Rivers, irrigation, restoration and preservation of water levels, and to improve agricultural conditions. Surplus power not used in the operation may be sold, giving preference to States, local units and nonprofit cooperatives.

S. 1440 — Flood Control—Creates seven independent corporate authorities, viz., Great Lakes-Ohio Valley Authority, Atlantic Seaboard Authority, Missouri Valley Authority, Arkansas Valley Authority, Columbia Valley Authority, Colorado Valley Authority, and Mississippi Valley Authority with power to acquire land and construct dams, reservoirs, canals, etc., with a view to provide for flood control to improve navigation, protect wild life, conserve natural resources, etc.

H.R. 4603

S. 24 — Army Posts— Authorizes the appropriation of over \$30,000,000 for construction and installation at approximately 90 military posts of needed buildings, utilities, and appurtenances.

S. 1771 — Construction of Highways—To increase employment by providing for the emergency construction of public highways in accordance with the provisions of the Federal Highway Act.

H.R. 5028

S. 1510 — National Libraries— To create five regional national libraries at New York, Memphis, Chicago, Denver and San Francisco.

H.R. 3699

S. 2102 — Civilian Conservation Corps— To establish a Civilian Conservation Corps and transfer to the Corps all personnel records, papers, property, funds and obligations of the Emergency Conservation Work.

H.R. 6180

S. 1830 — Water Conservation— To provide a system for impounding, storing, conserving and making use of unappropriated waters within the United States.

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- S. 639 -- Interest on Land Bank Loans--Extends until July 1, 1939, the $3\frac{1}{2}\%$ interest rate on mortgage loans made through farm loan associations or purchased from joint stock land banks. Extends until June 30, 1939, the final date for payment by the Secretary of the Treasury to Federal Land Banks for loss of interest incurred by the above reduction. It is estimated by Budget that this involves approximately \$60,000,000 annually.

OFFICE OF
THE SECRETARY OF THE TREASURY

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April 17, 1937.

MEMORANDUM FOR THE SECRETARY:

I attach a telegram received this morning from Seattle regarding the apprehension by Customs officers of a Chinese narcotics violator by the name of LEE MON.

According to earlier reports from Hanks, LEE MON, who lives at Seattle, is one of the most important figures engaged in the narcotics traffic on the West Coast.

GRAVES.



TREASURY DEPARTMENT

BUREAU OF CUSTOMS

WASHINGTON

OFFICE OF DEPUTY COMMISSIONER
INVESTIGATIVE UNIT

NAR:JWB

April 17, 1937

Memorandum for Mr. Graves:

There is quoted below, for your information, a telegram received from the Supervising Customs Agent at Seattle in regard to the arrest of one Lee Mon, in possession of two ounces of yen shee, and the subsequent investigation actuated as a result of Lee Mon's statement:

"LEE MON arrested by Lindin and Harlow aid of State Highway Police 1:30 this morning Spokane highway 40 miles east of Seattle. Mon had about two ounces yen shee on his person when arrested driving his car at high speed. This office now seeking search warrant Yakima on LIEDLOFF residence MON claiming yen shee came from Liedloff home. Conferring with Greeson on case and he is fully advised. Keeping MON incommunicado until after service of warrant at Yakima."

James Gray
Acting Deputy Commissioner of Customs

cc: Mr. Gaston
Mr. Gibbons
Mr. Moyle
Mr. Dow
Mr. Anslinger

April 19, 1937

9:30 Group Meeting.

Present: Mrs. Klotz
Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Lochhead
Mr. Haas
Mr. Bell
Mr. Gibbons
Mr. McReynolds

HM, Jr.: The most important thing I have got is this Old Age Pension and I want to compliment Herman Oliphant in getting busy Friday night. He did a swell job and I read in this morning's papers that they have asked for the thing on the 26th. By the way, the slip you gave me Saturday morning I gave to the President. Will you have another one? Send it in by hand.

Mr. Oliphant: Do you want a ribbon copy?

HM, Jr.: Ribbon. And let Magill have one copy too.

Mr. Oliphant: Sure.

HM, Jr.: The President having this thing -- he frankly didn't understand it and having that thing was very good. Whether he got in touch with the Attorney General on the Social Security thing, or not, I don't know. Have you talked to anybody in the Attorney General's Office?

Mr. Oliphant: I talked to Bob Jackson and Stanely Reed.

HM, Jr.: Do you know what their program is?

Mr. Oliphant: They telephoned to Boston for a record.

HM, Jr.: That's all in the papers.

Mr. Oliphant: And they are going to ask the other side to waive the 20 days' notice to answer and are going to ask the Chief Justice to allow it to go on for immediate argument.

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HM, Jr.: I usually lunch with the President on Monday. I don't know whether I do today. So will you let me know where it stands? And keep Magill advised.

Mr. Oliphant: Yes.

Mr. Bell: On this question of taking this case to the Supreme Court, the President will want to know why you did not argue the Alabama case.

Mr. Oliphant: The Alabama case only involves unemployment insurance fund of which we get only 10%.

HM, Jr.: He didn't understand the thing at all and the first he had was what we showed him.

Mr. Oliphant: I tried to bring that point out.

HM, Jr.: (To Magill) But I want to say this: from a legal revenue standpoint I consider it -- now that you have disposed of Railroad Retirement -- I consider this about as important a thing as we have.

Mr. Oliphant: The only thing we can do is work along with Justice and Jackson is showing every disposition to cooperate.

HM, Jr.: That's all fine, but if I may say so, they don't seem to have the avenues to get to the President as rapidly as we do. If we get the stuff to the President in time, at least we have an opportunity to let him see the Treasury's viewpoint.

And I want to say, I think I will just say this much about the Budget message. I think that we can say we got everything we asked for. Dan?

Mr. Bell: Everything.

HM, Jr.: Don't you think so? Everything we are entitled to?

Mr. Bell: Yes. Everything we asked for.

Mr. Oliphant: Was that more than you were entitled to or less?

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HM, Jr: In the Budget message you can't get more than you are entitled to. After all, we are reasonable fellows and we got everything we asked for.

Mr. Bell: Looks very good to me.

HM, Jr: And I still say that God and Roosevelt had reasons to send Harry Hopkins to Cuba with Ickes. There was great discussion as to what we should do to keep them here, but I still say that when the two of them leave town, it is not purely accident or fate.

Mr. Magill: I have three or four things here. I will start with the less important.

On these simplifications of income tax returns, that has gone about as anticipated. The committee we designated from here has come in with a simplified form which I think is a considerable improvement. You may remember that the Income Tax Unit itself designated a committee just before we did and broke it into the papers. That committee has come through with a report of a new form which I think is fully as complicated as the old one. The question is the matter of making a choice as between the two, which I think is a reasonably obvious choice.

HM, Jr: Who's going to decide?

Mr. Magill: You and I, I suppose.

HM, Jr: You tell me what to decide.

Mr. Magill: I have from Mr. Gaston and from them directly a report of the meeting of the U. S. Chamber of Commerce one of the luncheons of which is to be devoted to undistributed profits tax. They originally asked me to speak there and I said I wouldn't and they are now after me to attend it. My general feeling would be it probably would be better for Kent or somebody like that to go.

HM, Jr: And speak?

Mr. Magill: No. No. What do you think of that?

HM, Jr: I don't care. Do it any way you want.

Mr. Magill: I doubt if it is a good idea for me to go.

I have a letter from the State Department -- the Canadian

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reducing the holding tax, has been approved by both Houses of the Canadian Parliament. My understanding is the thing is in the Foreign Relations Committee.

HM, Jr: If my memory serves me right, didn't Mr. Hull ask me to ask Key Pittman to hold it up?

Mr. Taylor: Which I did. It was approved by the Subcommittee.

HM, Jr: And didn't I ask Key Pittman to hold off? Will you (Taylor) find out what Mr. Hull wants us to do and let Roe know?

Mr. Magill: The last one -- I think here is perhaps the most important. We have had inquiries from the French as to whether we would be willing to enter into some negotiations with them for the prevention of tax evasion by nations of the respective countries; that is, for an interchange of information between the two tax administrations to prevent tax evasion by their respective nationals. The most important aspect of the Canadian treaty, to us, is along that line. The Canadians have agreed to set up quite elaborate machinery to assist us in collecting our own taxes from persons who claim to be Canadian residents. Mr. Oliphant sent in a notation this morning with respect to the same thing and I wondered whether it would be a good idea for us to consider steps for negotiating a rather general movement of that kind. Probably the best way to do it is not to do it directly, I imagine.

HM, Jr: I would like sometime to sit down with you and with Herman and bring in any people who are interested in that. I would like to discuss the philosophy of it and that brings up this question I have asked Mac to ask the State Department for 400,000 citizens living abroad whose names we haven't got and we are going to try to see whether they filed returns and that's part of the whole picture. No argument about that. After all, we are entitled to ask. It's unbelievable to believe that 400,000 Americans have not been checked to see whether they pay tax. This week let's have a meeting and let's get together and talk about it.

Mr. Magill: If we could get from the British

HM, Jr: And I would have Herbert Feis here.

Mr. Magill: if we could have an indication of what their reports show with respect to income from here.

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HM, Jr: All this Budget has left me a shell and I am going to need a week or ten days to come back and I am completely all in after this Budget and Relief and I haven't got an idea or anything. It's a terrible thing to go through, isn't it Dan?

Mr. Bell: Yes.

HM, Jr: With Aubrey Williams -- if he was to get the President to put in writing that relief was a permanent problem and we are going to take care of it permanently -- that's his philosophy. And Dan and I got the President to throw into the ash can the entire relief message. There is no relief message. There is a Budget plus a message, but there is no relief philosophy. It just went in the scrap basket. But to sit there -- it's a terrible thing to go through. They had it all written to put this thing on a permanent basis forever.

Mr. Bell: In a Public Works Department .

HM, Jr: But permanently.

Mr. Bell: That's right.

Mr. Gibbons: Hopkins made a speech down in New Orleans and said relief was permanent.

HM, Jr: But it isn't in the President's message.

Mr. Oliphant: Nothing. Did you read my piece on Annenburg?

HM, Jr: I have to ask you some questions. I haven't got enough background.

Mr. Oliphant: Irey is up in Newark today.

Mr. Taylor: Nothing.

Mr. Gaston: This bond letter of Goldsmith asks some questions of the Comptroller about the policy of permitting banks to carry Government bonds on their books at par or cost, whichever is higher. He had also written letters to the Comptroller and the Federal Reserve Board on the same subject. I thought of asking him what reply he was going

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to make, but I think it's something that the Comptroller will probably want to discuss with you or people here in the Treasury. Perhaps you want to take it up with him.

HM, Jr: Herbert, will you send somebody over to the Department of Agriculture and I want three sets of this bulletin for every State, "Twenty Ways to Conserve Soil and Qualify for Payments in New York." Let me read you some of the items:

- "Practice No. 9. - Rate of payment \$2.50 an Acre. Plowing or disking under biennial or perennial legumes from which no crop has been harvested and for which no seeding payment will be or has been made under this or any previous program; or annual legumes which have attained such growth.
- "Practice No. 10. - Mulching Orchards. Rate of Payment, \$2.00 per ton on not more than 5 tons per acre. Applying to land used for commercial orchards not less than 3 tons of air-dried mulching material

HM, Jr: If any farmer in New York State knows what that is, I'll eat my hat.

".... or its equivalent, per acre, in addition to leaving in the orchard all material produced therein during 1937 from grass, legume, green-manure, or cover crops."

- "Practice No. 15 - Building 2-Strand Woodland Pasture Fences. - Rate of payment, 15 cents per rod of fence. Constructing fence of not less than three strands of barbed wire with posts or other suitable supports not more than 1 rod apart, to exclude livestock from farm woodlands previously used for pasture.

- "Practice No. 17 - Planting Forest Trees. Rate of payment, \$10. per acre.

HM, Jr: Roosevelt started this and we made the farmers pay \$2.00 a tree to get them to feel that they had something. See? So instead of giving them a tree, we made them pay for it.

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"Planting nursery-grown forest trees or lifted wild stock at the rate of not less than 1,000 trees per acre on open farm land. When white pine plantings are made, current and gooseberry bushes within 1,000 feet of the planting site must be removed."

HM, Jr: And the total, Mr. Bell, is \$500,000,000! I want one set for Mr. Bell and one for me and one for the President.

Mr. Gibbons: Anslinger tells me that there were 48,000 pounds of narcotics from Japan came into New York and was sent to Philadelphia and there has been in bonded warehouse and now a ton of narcotics disappeared. Apparently Customs does not know a thing about it.

HM, Jr: Fortunately both organizations are under you.

Mr. Gibbons: I know. What we maintained has not happened is happening.

Mr. Haas: I haven't anything.

HM, Jr: I want to see you and your group at 10:30 to talk about financing and bills, etc. Come in and I will give you half an hour.

Mr. Lochhead: You wanted some figures on security purchases and sales by foreigners. The Federal Reserve figures are always a little bit later. They show net purchase of \$7,800,000 and SEC shows \$10,831,000 sales.

The other figures are balance of trade from United Kingdom -- \$26,000,000 as against \$22,000,000 last year, this time.

Mr. Bell: Nothing.

Mr. McReynolds: Nothing.

oOo-oOo

April 19, 1937

The President said at lunch today that the next two weeks at home and abroad are going to be easy. They are going to be much better.

OFFICE OF
THE SECRETARY OF THE TREASURY

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April 19, 1937.

MEMORANDUM FOR THE SECRETARY:

The following is from to-day's ticker:

New York--William Bonanzi, 45, the "brains" of a narcotics ring which smuggled \$250,000 worth of opium into this country from the British Freighter TAYBANK, was sentenced to 10 years in Alcatraz Prison to-day by U. S. Judge Grover M. Moscowitz, who called him a "dangerous criminal."

GRAVES.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 19, 1937

TO Secretary Morgenthau
FROM Mr. Magill

Re: Income Tax Oath

My own reaction is similar to Mr. Martin's. Speaking as an individual taxpayer I think I would just as soon take the trouble to have my return notarized as to procure two witnesses to my signature. It is my understanding that the Legal Division suggested the provision for witnesses as a guarantee of the authenticity of the taxpayer's signature. I have asked Mr. Kent to look into the question further, to see whether the Bureau would be sufficiently protected if we provided simply for the taxpayer's signature, as Massachusetts does, with the further provision that the taxpayer will be guilty of perjury if his return is false.

RW

New Bill Would Abolish U. S. Income Tax Oath

Acknowledgment Before Two Witnesses Substituted

From the Herald Tribune Bureau

WASHINGTON, April 14, 1930
The nuisance of hunting up a taxpayer
publicly and swearing to one's Federal
income tax return would be abol-
ished, under a bill introduced in
Congress today by Senator David I.
Walsh, of Massachusetts, with the
approval of Henry Morgenthau jr.,
Secretary of the Treasury.

The bill, which seems assured of
passage, would retain perjury penal-
ties for those who make false state-
ments, but would permit the tax-
payer to have his signature ac-
knowledged merely before two wit-
nesses. It is patterned after a
Massachusetts statute. Secretary
Morgenthau was quoted by Senator
Walsh as saying, in an opinion on
the bill:

"The experience of the depart-
ment is that there has been a fre-
quent disregard of the prescribed
formalities incident to the adminis-
tering of oaths by notaries public
and other persons authorized to ad-
minister oaths. As a result much of
the solemnity and psychological ef-
fect usually attached to the proper
administering of an oath is lost.
Because of some formal defect in the
administering of the oath, the gov-
ernment, in numerous instances, has
been unable to prosecute taxpayers
for perjury for false statements
made in their income returns."

READ CAREFULLY

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I hereby state that this return made or carefully examined by me, contains, to the best of my knowledge and belief, a true and complete statement of all the taxable income called for by the various items herein, which I have received during the year above stated; that the information given herein is true and complete; that I am entitled under Chapter 62 of the General Laws (Ter. Ed.) as amended and Chapter 307 of the Acts of 1933 as amended and by Chapter 489 Acts of 1935 to all of the deductions and exemptions which are claimed herein; and that all supporting statements herewith included are true and complete. **This statement is made under the penalties of perjury.**

Signed this _____ day of _____ 1937

TAXPAYER'S SIGNATURE

First Name

Middle Initial

Last Name

April 16th 1937.

Dear Mr. Morgenthau:

Concerning the within newspaper clipping I would go further and even dispense with witnesses to signatures. As you know it so often happens that a person does not care to have an outsider see any part of his return.

The Massachusetts form requires nothing more than the taxpayer's signature.

Enclosed is a portion of a Massachusetts return relating to signature.

Very kind regards

Sincerely yours,
J. Martin

See your copy
for Rev to read

GOVERNOR OF THE FARM CREDIT ADMINISTRATION
WASHINGTON

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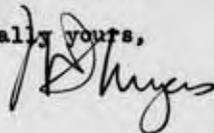


April 19, 1937.

Dear Henry:

As you requested, I am enclosing a copy of an analysis of the Farm Tenancy Bill reported out by the House Committee on Agriculture last week.

Cordially yours,



Governor.

The Honorable
The Secretary of the Treasury

To: Mr. Evans
From: Mr. Horton *Jed*
Subject: H. R. 6240

April 16, 1937

The above bill consists of four titles, all of which will be under the administration of the Secretary of Agriculture.

Title I deals with loans to purchase farms. The general plan is to have county committees certify worthy applicants and also appraise the farms to be purchased. There is no limitation on the size of individual loans but the Secretary is required to distribute the amount available among the several states on an equitable basis. An appropriation of \$50,000,000 for each year until 1942 is authorized.

Title II deals with rehabilitation loans, secured by chattels, and farm debt adjustment. An appropriation of \$75,000,000 for each of the next two years, plus certain other funds, is authorized.

Title III relates to the retirement of submarginal land. An appropriation of \$10,000,000 for the first year and \$20,000,000 for each of the next three years is authorized.

Title IV provides for the establishment of a Farm Security Administration in the Department of Agriculture to administer the various provisions of Titles I, II and III. This title also covers a number of details of administration.

ANALYSIS OF H.R. 6240

This bill was introduced by Mr. Marvin Jones on April 8, 1937. The bill is entitled "A Bill To encourage and promote the ownership of farm homes and to make the possession of such homes more secure, to provide for the general welfare of the United States, to provide additional credit facilities for agricultural development, and for other purposes".

The Act is entitled the "Farm Security Act of 1937".

TITLE I

Power of Secretary

Section 1. (a) Authorizes the Secretary of Agriculture to make loans in the United States, Alaska and Hawaii.

(b) Restricts the benefits of Title I to farm tenants, farm laborers, sharecroppers, and other individuals who obtain, or who recently obtained, the major portion of their income from farming operations; provides that preference shall be given to persons who are married, or who have dependent families, or, wherever practicable, to persons who are able to make an initial down payment, or who are owners of livestock and farm implements.

(c) Prohibits loans on farms that are not of such size as to constitute efficient farm management units.

County Committees and Loans

Section 2. (a) Authorizes the County Committee to (1) receive applications for loans under and (2) examine and appraise farms.

(b) Provides for a certificate of the County Committee (1) that the applicant is eligible and (2) as to the reasonable value of the farm.

(c) Prohibits certification by any Committee member who is directly or indirectly interested in the particular transaction.

(d) Certificate of the County Committee required before loan may be made.

Terms of Loans

Section 3. (a) Authorizes loans in such amount (not in excess of the amount certified by the County Committee to be the value of the farm) as may be necessary to enable the borrower to acquire the farm. No other limitation is specified. Requires a first mortgage or deed of trust as security.

(b) Specifies various provisions that shall be incorporated in the security instruments, including:

- (1) Repayment in not more than 30 years.
- (2) 3 percent interest.
- (3) Amortization.
- (4) Covenants against waste and to maintain property.
- (5) Borrower to pay taxes and insurance.
- (6) Secretary of Agriculture may declare unpaid amount immediately due and payable if the borrower assigns, sells, or otherwise transfers the farm without the consent of the Secretary or upon involuntary sale or transfer.

(c) Provides that security instruments shall not prohibit the prepayment of any sum due.

Equitable Distribution of Loans

Section 4. Requires an equitable distribution of the amount loaned among the several States on the basis of population and the prevalence of tenancy, as determined by the Secretary.

Appropriation

Section 5. Authorizes an appropriation of \$50,000,000 for each of the fiscal years ending prior to July 1, 1942.

TITLE II -- REHABILITATION LOANS

Borrowers and Terms

Section 21. (a) Authorizes the Secretary to make loans to eligible individuals for the purchase of livestock, farm equipment, supplies, and for other farm needs and for the refinancing of indebtedness, and for family subsistence.

(b) Fixes the interest rate at 3 percent and specifies that maturities shall not exceed 5 years, payments to be made in installments. The security shall be a chattel mortgage, a lien on crops, an assignment of proceeds from the sale of agricultural products, or any one or more of them.

(c) Authorizes loans under this section only to farm owners, farm tenants, farm laborers, sharecroppers, and other individuals

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who obtain, or who recently obtained, the major portion of their income from farming operations, and who cannot obtain credit on reasonable terms from any federally incorporated lending institution.

Debt Adjustment

Section 22. Authorizes the Secretary to continue the debt adjustment work now being carried on.

Appropriation

Section 23. (a) Authorizes an appropriation under this title of \$75,000,000 for the fiscal year ending June 30, 1938 and the same amount for the fiscal year ending June 30, 1939.

(b) Also authorizes the appropriation of certain unexpended funds.

(c) Authorizes the President to allot relief funds for use in carrying out the provisions of this title.

TITLE III — RETIREMENT OF SUBMARGINAL LAND

Program

Section 31. Authorizes and directs the Secretary of Agriculture to develop a program of land conservation and land utilization.

Powers Under Land Program

Section 32. Authorizes the Secretary:

- (a) To acquire submarginal land and land not primarily suitable for cultivation.
- (b) To protect, improve and administer any property so acquired.
- (c) To sell, lease or otherwise dispose of property so acquired.
- (d) To dedicate for any public purpose lands acquired under this title.
- (e) To cooperate with Federal, State, Territorial, and other public agencies in developing plans for land use program.
- (f) To make rules and regulations to prevent trespasses and otherwise regulate the use and occupancy of property acquired under this title. A violation of such rules and regulations to be punished under the provisions of Section 5388 of the Criminal Code.

Payments to Counties

Section 33. Provides that the Secretary shall pay to the county in which the land is located 25 per centum of the net revenues from the land, provided that such payments shall be used for school or road purposes, or both.

Appropriation

Section 34. Authorizes an appropriation of \$10,000,000 for the fiscal year ending June 30, 1938, and \$20,000,000 for each of the three fiscal years thereafter.

TITLE IV -- GENERAL PROVISIONS

Farm Security Administration

Section 41 (a) Provides for establishing a Farm Security Administration in the Department of Agriculture.

- (b) Empowers the Secretary:
- (1) To appoint and fix the compensation of necessary officers and employees without regard to Civil Service laws and regulations; requires that field employees be bona fide residents of the State or region in which the field office is located.
 - (2) To accept voluntary services and, with the consent of the agencies concerned, the services of other Federal or State agencies.
 - (3) To incur general administrative expense.
 - (4) To make contracts for services and purchases of supplies without regard to section 3709 of the Revised Statutes.
 - (5) To make payments prior to audit and settlement by the General Accounting Office.
 - (6) To acquire land without regard to the provisions of law relating to restrictions on the acquisition of land by the United States.
 - (7) To compromise claims and obligations as circumstances may require.
 - (8) To collect claims arising under the Act in any court, State or Federal.

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- (9) To make rules and regulations.

County Committee

Section 42. (a) Authorizes and directs the Secretary to appoint a Committee of three farmers in each county.

(b) Authorizes compensation to Committee members at the rate of \$3.00 per day, plus traveling and subsistence expenses.

(c) Covers details of Committee procedure.

(d) Authorizes the Secretary to impose additional duties on the Committees.

Resettlement Projects

Section 43. Authorizes the Secretary to continue Resettlement Administration functions but only for the completion and administration of projects for which funds have been allotted.

General Provisions Applicable to Sale

Section 44. Requires the Secretary, in selling real property acquired under the Act, to reserve an undivided half interest in all coal, oil, gas and other minerals.

Surveys and Research

Section 45. Authorizes the Secretary to conduct surveys, investigations and research and publish and disseminate information regarding the Act.

Variable Payments

Section 46. Authorizes the Secretary to provide for prepayments by borrowers under a system of variable payments so that a surplus above the required payment will be collected in periods of above-normal production or prices and employed to reduce payments below the required payment in periods of sub-normal production or prices.

Set-Off.

Section 47. Prohibits the set-off of payments to be made by the Secretary on account of a borrower's indebtedness to the United States.

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Bid at Foreclosure

Section 48. Authorizes the Secretary to purchase at foreclosure sale; to operate or lease property so acquired, and to sell such property upon such terms and conditions as he thinks reasonable.

Fees and Commissions Prohibited

Section 49. Prohibits officers, attorneys, or employees of the United States from receiving fees other than compensation paid by the United States in connection with transactions under the Act; fixes the penalty for violation.

Extension to Territories

Section 50. Provisions of the Act are extended to the Territories of Alaska and Hawaii.

Separability

Section 51. Provides that if a part of the Act is held invalid the remainder of the Act shall not be affected thereby.

April 19, 1937.
10:16 a.m.

H.M.Jr: Hello

Operator: Dr. Parran is out of the city. Dr. Olsen is in charge.

H.M.Jr: All right - hello - put him on.

O: All right.

H.M.Jr: Hello - hello

O: Hello

H.M.Jr: Yes.

O: I'm getting him - just a second.

(long pause)

O: Operator.

H.M.Jr: Where is he?

O: He's coming - he was out of the room.

H.M.Jr: What?

O: He's coming to the telephone - he was out of the room.

H.M.Jr: Olsen - I never heard of him. Where is - where is Parran.

O: I think St. Louis.

(another long pause)

H.M.Jr: Hello

O: Dr. Olsen. Go ahead.

H.M.Jr: Hello Dr. Olsen.

Olsen: Yes sir.

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H.M.Jr: Are you acting now?

O: Yes sir, trying to.

H.M.Jr: I don't - have I met you?

O: I think I just saw you at one of your teas sir.

H.M.Jr: Yes. How long will it take you to come over here.

O: I imagine about ten minutes.

H.M.Jr: Well I wish you'd come right over to my office please.

O: All right, sir.

H.M.Jr: Thank you.

April 19, 1937.
10:20 a.m.

Operator: Operator.

H.M.Jr: Get me Mary Switzer.

O: Right.

O: Miss Switzer.

Switzer: Yes.

H.M.Jr: Miss Switzer why is Dr. Olsen Acting Surgeon General instead of Draper.

S: Draper's away doctor - Mr. Morgenthau.

H.M.Jr: Oh well who is Olsen?

S: Well Olsen is one of the men on the staff; he's the most recent appointee. He took Dr. R. C. Williams' point - ah - place in Sanitary Reports and Statistics; he's the oldest man in point of service and I think that's the reason he 's acting to-day.

H.M.Jr: Ah - well he's on his way over and when he comes over I want you - is Miss Roche away too?

S: Yes Miss Roche is away and Dr. Parran is away.

H.M.Jr: All right, well when what's his name comes in I'll let you know. I want you here.

S: Thank you very much.

April 19, 1937.
12:52.

H.M.Jr: Hello

O: Dr. Parran's train arrives in St. Louis at 1:20.

H.M.Jr: Oh forget it.

O: All right.

H.M.Jr: Skip it.

O: All right.

April 19, 1937.
10:22 a. m.

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H.M.Jr: Hello.

Butterworth: Hello.

H.M.Jr: Hello - Butterworth.

B: Well how do you do, Mr. Secretary.

H.M.Jr: Can you hear me?

B: Yes, very well.

H.M.Jr: What I wanted to say is this: In your telegram 222

B: 222. (see p. 114)

H.M.Jr: which you sent me on the 16th - have you got it?

B: Yes, I've got it in front of me.

H.M.Jr: Well, if you remember, you had a conversation with a certain gentleman

B: Yes.

H.M.Jr: and you said that he thought he could talk for his superior in regard to a certain problem.

B: Yes, quite.

H.M.Jr: Well now I don't even want to put it in a cable.

B: Yes.

H.M.Jr: He said they wanted to exchange views.

B: Yes.

H.M.Jr: You - you - you follow me?

B: Yes I follow you.

H.M.Jr: But that is so vague

B: Yes.

H.M.Jr: that I don't know just what they mean. Now I mean where do they want to exchange views; I mean it isn't the sort of thing that I'd want to do in a cable.

B: No.

H.M.Jr: And could you find out - after all, you remember you said something before about Clay

B: Yes.

H.M.Jr: And he spoke to you but this isn't something that I can do in cables.

B: Right.

H.M.Jr: Now if they have some idea - the only place I'd exchange views on it is in Washington.

B: I see.

H.M.Jr: Now if Mr. Phillips wants to come over here all right, but it isn't a thing that I can conduct

B:

I am -

ah - I am - ah - something of conclusion

H.M.Jr: Pardon me?

B: from my impression of the atmosphere when he made that remark.....

H.M.Jr: Repeat that please.

B:

H.M.Jr: Will you repeat that.

B: The general problems which are on that problem are ones that were of mutual interest and that at some given point we might find it desirable to discuss them and that he wanted you to feel that he was open at any time.

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H.M.Jr: Well, I mean if they want to open it all right, but I didn't want to leave your cable go unanswered.

B: Right, well, that's very kind of you.

H.M.Jr: But if they want to open it ...

B: Yes.

H.M.Jr: I'm telling you so that you can use it. I mean - somebody like Mr. Phillips should come over here

B: Yes.

H.M.Jr: see?

B: Yes.

H.M.Jr: Because I couldn't discuss a thing like that in a cable. I - I - I wouldn't risk it.

B: Yes, I see.

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

B: Well now I shall probably be seeing him at the end of this week in the usual way

H.M.Jr: Yes.

B: and perhaps then - perhaps it would be better if I casually brought the matter up at that time.

H.M.Jr: Well, that's all right, but you might say that a matter like - of such importance could not be carried on by cable.

B: Yes sir.

H.M.Jr: What?

B: Yes I will.

H.M.Jr: You might start by saying had he ever thought of coming over to this country.

B: Yes sir.

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H.M.Jr: You see?

B: I will.

H.M.Jr: How does that strike you?

B: I don't think it would be possible for him to come over, frankly.

H.M.Jr: Well I can't discuss it by cable.

B: Right.

H.M.Jr: So - ah -

B: Well I don't think he felt that there was any urgency about it.

H.M.Jr: Well we - we don't feel there is any emergency.

B: No.

H.M.Jr: But I have felt right along that the shoe would pinch first over there.

B: Quite - quite.

H.M.Jr: And that if - and that when they got ready if they wanted to talk why they'd better send somebody over here.

B: Right. I shall put that idea forward and let you know.

H.M.Jr: All right. I want to tell you that I feel your cables have steadily improved.

B: Well that's very nice of you.

H.M.Jr: And I - I - I'm very much pleased.

B: Well, I'm very grateful that you should mention it.

H.M.Jr: All right.

B: Just one thing, while I'm here. You remember that the question of the Japanese came up?

H.M.Jr: Yes.

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- B: And an inquiry was made as to whether we - ah - whether we had been approached also?
- H.M.Jr: Ah - Mr. Taylor is sitting here - he says, "Only general conversation."
- B: Only general conversation.
- H.M.Jr: Yes, well let me ask him. (Speaks aside to Mr. Taylor) They never got down to specific - ah - discussion.
- B: I see but they conveyed the idea that they might here and then they might be interested in joining.
- H.M.Jr: Ah - well I don't think they went quite that far.
- B: I see.
- H.M.Jr: Just a minute. (Talks aside again with Mr. Taylor) What Mr. Taylor says is they expect general cooperation to cooperate
- B: (Laughs)
- H.M.Jr: but the conversation that you reported over there was - was much more specific than anything we've had here.
- B: I see. Thank you so much, and I take it that you don't mind my conveying that on to the proper parties.
- H.M.Jr: No. I'd be glad to have you do it. I mean they never got down to anything specific.
- B: Well thank you so much, sir.
- H.M.Jr: Thank you.

April 19, 1937.
11:59

H.M.Jr: Hello

Operator: Dr. Olsen is on his way from his home to his office.

H.M.Jr: Well give me Miss Switzer.

O: All right.

(pause)

O: Miss Switzer - go ahead.

H.M.Jr: Hello - Miss Switzer.

S: Yes Mr. Morgenthau.

H.M.Jr: Dr. Goldwater of New York -

S: Yes.

H.M.Jr: You know who I mean?

S: Yes indeed.

H.M.Jr: Is he still on as a Consultant in the so-called blue book of the Health People.

S: Ah - just let me look and see.

H.M.Jr: Thank you.

S: It would be very easy to have him if he wasn't.

H.M.Jr: Well put him on as a Consultant if he isn't and he's going to meet you there 3:30.

S: At the hospital?

H.M.Jr: At the Stapleton.

S: All right.

H.M.Jr: At my request.

S: Yes, well he's not on now.

H.M.Jr: Well have him put on.

S: All right.

H.M.Jr: He's a Consultant from now on.

S: All right that's fine.

H.M.Jr: And he'll meet you there and I tried to get Olsen and he's out and will you tell Olsen.....

S: Yes indeed.

H.M.Jr:that I've invited Dr. Goldwater; that I regard him as the outstanding authority on hospital administration in America.

S: Oh there's no question about it - we do too.....

H.M.Jr: Well -

S:and we will - we'll do it and we'll - you may be sure that we'll come back to you with a full story and we - I appreciate your confidence in me.

H.M.Jr: All right.

S: I won't let you down.

H.M.Jr: Don't you do it.

S: I won't.

H.M.Jr: I've spanked bigger girls than you.

S: Well I (laughs) - I won't - you know I won't. (Laughs)

H.M.Jr: All right.

S: (Laughs) Thank you.

April 19, 1937.
12:53 p.m.

Governor
Harrison: Hello

H.M.Jr: Hello, George Harrison?

H: Hello, Henry, yes - yes. Ah - I've been over here in session all morning.....

H.M.Jr: Yes.

H:and we're just chinning over things. I just wanted to talk you about - a little bit of what - on Saturday before I left the bank I had a long talk with Sproul and Madison.....

H.M.Jr: Yes.

H:and I told them that - that I wanted them to see the dealers in the banks this morning.....

H.M.Jr: Yes.

H:and then just let it be known that we were in the market at any time now to make shifts in maturities of bills, that is, I wanted it so that they wouldn't get the feeling - any of them - that they might get stuck on any particular maturity.

H.M.Jr: Yes.

H: That relieves them a good deal.....

H.M.Jr: Yes.

H:and there's much - they're much happier about the outlook of the bill market this morning than they were on Friday and even on Saturday.

H.M.Jr: Fine.

H: Now another thing - ah - I told Sproul this morning I want him to go in and pick up some bills anywhere - where he found any around.

H.M.Jr: Yes.

H: Ah - the dealers have had none on their shelf for the last five days - any - any bills.

H.M.Jr: Ah-ha.

- 2 -

H: Ah - the dealers also said they - there weren't any bills being pressed on the market or offered on the market.

H.M.Jr: Ah-ha.

H: So - ah - I said - ah - to Sproul that I wanted him to call up some of the different banks; let them know we're ready for some bills if they have any.

H.M.Jr: Yes.

H: Well he was able this morning only to find three millions.

H.M.Jr: I see.

H: So - ah - then I said, well, I thought he should keep on going - maybe get a little more so that - let them all know that we were interested. I hope, therefore, that that activity will make for a little better rate. Now the gift they made this morning early.

H.M.Jr: Yes.

H: That is, of all the people he talked to - the banks and the dealers - was about - around 55 - anywhere between 50 and 60 but the majority said 55 on the short bills.....

H.M.Jr: Yes.

H:and 65 to 75 as a maximum on the long bills.

H.M.Jr: I see.

H: Ah - ah - frankly, I think better than the activity of buying anything was the knowledge you let them have in advance.....

H.M.Jr: Yes

H:this time that we would do what we did last time in picking up the nine months bills off their hands.

H.M.Jr: I see.

- 3 -

H:

H.M.Jr: I should think that would be very helpful.

H: I think it will be helpful.

H.M.Jr: It's like most of those things. As a result you most likely won't have to pick up any.

H: Yes. Now - ah - ah - I gathered from some of the Members of the Board - ah - that you had felt from what I had said last week that perhaps these nine months bills wouldn't go at all - but I told the Board that I had said to you, and I think I was right, that "No, the bills will go but you'll have to pay more for them."

H.M.Jr: George I haven't talked to any Members of the Board.

H: Well that's - Marriner came back and - two or three of them came to me and got all worked up because they thought that I had.....

H.M.Jr: Well now - ah - I haven't talked to anybody but Marriner Eccles.

H: Yes.

H.M.Jr: Marriner peddles out something - I have not talked to or seen or communicated with any Member of the Board last week.

H: Well I guess they got it through Marriner. All I wanted to do.....

H.M.Jr: Yes.

H:was to make - I don't think you and I had any misunderstanding. I was trying to make with you a guess of what the bills would go for as it looked last Friday. Now - now all I'm telling you now is I think it looks as though they'll go a little better than it looked when I talked to you Friday.

H.M.Jr: Now Goldenweiser was here when I had the discussion with Eccles.

H: Yes.

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H.M.Jr: I just remembered that.

H: Yes.

H.M.Jr: But I have not talked or communicated with any Member of the Board other than Eccles.

H: Yes - yes, well he probably reported back.....

H.M.Jr: Oh.....

H:what I had said.

H.M.Jr: Well I - I think that if they brought a little pressure on you I think it's good.

H: Nobody brought any pressure on me; I did all this before I came down here.

H.M.Jr: (Laughs) I see.

H: (Laughs) Nobody - I don't object to pressure.....

H.M.Jr: All right.

H:and I've had a lot of it. (Laughs)

H.M.Jr: Well I - if they have brought a little on you I think it's fine but if you did it on your own way I think that makes it still better.

H: Well (laughs) all right, Henry. Now we'll just cross our fingers and hope.

H.M.Jr: Ah - yes, but it's like all of those things. I imagine that the work you've done will be fruitful this evening.

H: All right, well we'll see.

H.M.Jr: Thank you very much.

H: Goodbye.

RR

GRUY

Paris

Dated April 19, 1937

Received 1:55 p. m.

Secretary of State,
Washington.

496, April 19, 4 p. m.

FROM COCHRAN. Paris exchange market fairly quiet. With New York buying sterling and with dollars being offered as gold shipments to United States are liquidated there is today a weakening of dollars and a strengthening of sterling at Paris. French control has acquired some dollars around 22.37 but is understood to have lost a much larger amount of sterling in holding the rate at 110.05. Discount on three months forward franc against sterling 1.75 as compared with 1.10 last Monday.

French rentes opened 50 to 70 centimes down but closed about even after what appeared to be official intervention. New national defense bonds are expected to be quoted officially for the first time tomorrow. Since at least one half million francs of these bonds which the market has been unable to digest will be quickly offered it may be difficult to establish a quotation which will prevent too much dumping and yet not be so low as to hurt this and other Government issues. Discount on the new bonds is

today

496 April 19, 4 p. m. from Paris

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today around 23 francs per thousand.

Bank of France today invoiced to Federal Reserve Bank, New York 12,551,000 francs gold bars NORMANDIE. Statement of National Bank of Switzerland as of April 15 showed gold loss 95,000,000 Swiss francs yielded to stabilization account which has supported currency during pressure incident to gold scare.

BULLITT

KLP MPD

RECEIVED

APR 19 1935

TREASURY DEPARTMENT
 OFFICE OF THE ASSISTANT SECRETARY
 FOR INTERNATIONAL AFFAIRS